Urbanization and real estate market in China

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ABSTRACT

In many countries, especially those belonging to the so-called "First World", the real estate market is considered a mature sector, while in China it is still an industry in full expansion, although it has already evolved significantly over the past decades, reaching a status that we could consider intermediate compared to the situation of more developed countries. Indeed, after the market reform and China's opening to the logic of free trade, the process of urbanization has undergone a significant acceleration, which has also led the real estate sector to develop very rapidly. In addition, the enormous influence of the real estate market on national economic growth has led Chinese to explore the opportunities offered by local development targets. For this reason, the present thesis aims to explore the reality of China according to a multidisciplinary approach, integrated with empirical analysis and field-specific research, arriving at analyzing the real estate development law approved by the Chinese parliament to compare its outcomes with the perspective of urbanization, determining its positive and negative aspects.

In terms of research on the real estate sector in China, it must be noted that the majority of available information and reflections currently concern the micro-level, while to understand the trends of this expanding sector, aspects such as development goals, strategic steps, and factors of macro-control of the market, on which at the moment no satisfactory studies have been conducted. For this reason, the present work has focused on systematically analyzing the theories and evidence regarding the real estate market in China, taking into consideration its history and development dynamics. In the second place, this thesis also intends to demonstrate the relationship between the growth of the real estate market and urbanization trends, determining its most significant elements and relationships with existing regulations in China. Finally, the work proposes a comparison of various real estate development interventions in Shanghai, to demonstrate how the theoretical findings can also influence real-world case studies.

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0. Introduction

0.1 Research background and meanings

City is the main symbol of progress of civilization of human, urbanization becomes an irreversible trend during development of the world. Britain who is the earliest country complete urbanization, from 1760 to 1851 these 90 years, urban population has been over more than 50% of the total population\(^1\). In the (1989 World Development Report) shows that the urbanization level of the developed countries in the world is more than 80%, in which the UK has reached 92%, Belgium 97%, Australia 86%\(^2\).

Before the reform and opening-up policy in 1978 in China\(^3\), because of the state macro-management system was planed-economy\(^4\), whole social productive forces were fettered\(^1\), urbanization was in a rather slow speed. From the founding of New China in 1949 to 1978, the urban population only rise from 10.6% to 17.9%\(^5\), the average annual urbanization rate increased by only 0.2%\(^6\). After reform in 1978, national economy rapidly growth, urbanization in China drop into a situation of explosive growth. From 1978 to 2008 urbanization level increased to 44.9% from 17.9%. Small town expanded fast, population urbanized locally. Recently China urbanization rate has been over 50%\(^7\). Compare to those developed American and European countries which had the data over 70%\(^8\). No doubt that urbanization in China still needs stride forward.

In the past 100 years, urban business model is all the same over the world: Through improving city economy and living situation, land and housing price continue to rise, that's how a city get profit. Real estate market in China increasingly becomes the main engine for economy growth and urbanism. So there came an interactive development situation of urbanization and real estate market. Real estate market is the main part of urbanization, on the other hand, urbanization cannot be operated without real estate.

Unquestionably housing price would go up goes with the progress of urbanization, however, rapid development of the real estate market in China now seems bring a lot of problems. After the economic crisis in 2008, housing price has surprisingly raised 24% compare to before, which had been the largest number through the history. For a special commodity housing which related to Livelihood issues of a country, the speed of rising of price is hardly acceptable. During 2010 and 2011, raising speed is mitigated to 7.5% and 6.9%, due to the control polices by Chinese

\(1\) Data from World Bank
\(2\) 1989 World Development Report
\(3\) The “Chinese economic reform” is a program of economic development that refers to the “Socialism with Chinese characteristics” enacted in the People’s Republic of China (PRC) from December 1978 by the group of reformists, led by Deng Xiaoping, within the Communist Party of China (CPC)
\(4\) A planned economy is an economic system in which the decision making process in the production and investment field is completely embodied in a plan that is determined by the central authority, usually represented by a government agency.
\(5\) China Statistical Yearbook
\(6\) China Statistical Yearbook
\(7\) China Statistical Yearbook
\(8\) Data from World Bank
government. However, until 2011, the average price of commodity house became 5381 yuan/m². Moreover, in those tier one cities like Beijing and Shanghai, developers pushed housing price to 30000 yuan/m² to 40000 yuan/m². The debate on whether there is bubble in the real estate market in China is becoming hotter and hotter, and it is said that 2011 would be the inflexion for real estate market in China, or the bubble would quickly be punctured.

Meaning: Overheating real estate market, housing prices which comparably far from wages of common people, hot debate about the real estate bubble, such problems makes our topic should be seriously studied to understand the discipline behind all these phenomenon, moreover, to know how to soft land the hot market.

0.2 History and current status of real estate market in China

1978-1991 Breakthrough of the theory and the starting period

In 1978, housing commercialization and land property are proposed in China. In September, 1980, "Housing Construction Office" in Beijing was established. This showed the beginning of real estate development in China. In 1982, the state council authorized 4 cities--Zhengzhou, Shashi, Changzhou, Siping in China to sell the commercial housing. In 1984, Guangdong province and Chongqing began to impose land occupancy charge. From 1987 to 1991, it is the starting period of Chinese real estate market. On 26th, November, 1987, Shenzhen government first had competitive bidding to transfer land for residence. In 1990, the Reform of housing system was come on in Shanghai, which started the housing fund system. In 1991, the state council granted the overall plan of housing system Reform in 24 provinces.

Key words:
(Housing commercialization, land property, Land Transfer Fees)

1992-1998 period of adjustment after non rational speculation

In 1992, Deng Xiaoping made a speech during his inspection tour of South China, this made Chinese real estate market developed rapidly. South China had a peak development in real estate, in which Beihai, Dayawan and Hainan province had become speculation.

In 1993, prime-minister Zhu Rongji inspected in Hainan province, founding that the real estate

9 CHINA REAL ESTATE STATISTICS YEARBOOK
10 CHINA REAL ESTATE STATISTICS YEARBOOK
11 First real estate company in Beijing
12 Housing fund system:workers of state-owned enterprises, urban collective enterprises, foreign-invested enterprises, urban private enterprises, as well as other urban enterprises, institutions and individual workers to pay housing provident fund and certain long-term savings for the future payment of workers’ families to purchase or self-built housing costs.
market in Hainan had out of control, and had formed serious bubble in real estate market. So the prime
minister Zhu Rongji command to forbid commercial bank to grant loan to the developers. After
tighten up monetary policy, the real estate market suffered the heavy losses. Thus from the second
half year of 1993 to first half year on 1998, Chinese real estate market is not so prosper.

Key words:
(speculation, stopping granting loan, system of tax distribution)

1998~2003 period of high-speed economic growth in real estate market

Year of 1998 is a key year to the real estate market of China, the watershed is in the middle of the
year. Because of the real estate bubble, many developers could not make profit so quit the market. But to the second half year of 1998, around June, the policy began to change. The government came on a series of policy to stimulate the real estate market. One of them is abandon welfare-oriented public housing distribution system. That is to say, if you want an apartment you must buy it in the real estate market. This policy solves the problem by push it to the market system, thus the effective demand explodes in a very short time, and increase rapidly. The domino effect of this policy is “catch the last bus”, The first effect of this policy was that large amount of companies which had enough funds came to buy existing houses, many unsold houses were sold.

It was the housing reform polices provided a great deal of effective demand, furthermore, financial and tax policies created huge effective demand. Many banks cut interest rate, lower mortgage loan threshold. Down payment just required down payment20%~30% of the full price, some even lower, like 0%. The price policy was also changed. Before the price of commercial house is under the control of Price Bureau, one cannot raise the price arbitrarily. However, at that time this policy was canceled. This made it possible for the developers to raise the house price arbitrarily. Thus from 1999 to 2003 the real estate market in China had a period of high-speed growth.

In 2003, real estate industry had being listed as main industry in national economy.

Key words:
(Watershed, abandon welfare-oriented public housing distribution system, lower mortgage loan threshold, relocation movement)

2003~2011 Period of soaring house prices and regulation

In 2003 real estate industry in China reached a peak, problems came out such as unreasonable high price, irrational structure of the market, which lead serious social conflict, such as serious

13 Urban resident’s housing mainly solved by the company to which they belong, and all levels of government and units of housing construction in accordance with the country’s infrastructure investment plan, 90% of the source of housing construction funds mainly rely on government funding, and a small amount be raised by the company.

14 Administrative agencies of the Chinese government, which is responsible for price of commercial goods.
uneven distribution of wealth. Real estate had become the focus of attention.

From the year 2004, macro-control was implemented, the main feature was focus on regulating the supply: Tighten land and credit.

In 2005, the central government increased the intensity of macro-economic regulation and control, the main feature is the bi-directional regulation of supply and demand, mainly focused on demand regulation.

In 2006, it was trouble times for real estate, the state once again raised interest rates to curb demand, promulgated the regulation called "the national six" which mainly intended to adjust the structure of real estate products. However, financial markets opened in December, a large number of foreign hot money inflows, intensive control policies were still difficult to shake the price climb.

In 2007, the U.S. subprime mortgage crisis broke out, the U.S. real estate prices, trading volume and the number of housing starts indicators have entered a bear market, China’s real estate market was also affected, the first-tier cities as Beijing, Shanghai, Shenzhen, trading volume fell by more than 30%, the national price decline of about 20%.

But after a short-term decline in housing prices, there had been bailout policies in cities as Tianjin, Shenyang, Nanjing, Xi’an and other cities. In September 2008 and October 2008, the central bank has twice lowered the benchmark lending rate and the housing accumulation fund loan interest rate, tightening policy began to loosen. That’s how in 2009, when the U.S. subprime mortgage crisis transformed to global financial crisis, the decline in U.S. real estate prices were expanding, Chinese real estate contrarian up a substantial increase in trading volume in Beijing, Shanghai and other cities, the average monthly trading volume in some cities reached new recorded high points. *Take Shanghai as example, during the whole 2009, commercial housing sales 244,259 units, sales area is 26,442,400 square meters, which get up 70.23% compare to 2008. Commercial housing sales price is 11,790 yuan/ m², 27.56% up than 2008. Shanghai got the first place of price rises in cities.*

From the perspective of international law, when the urbanization rate is between 30-70%, urbanization will accelerate. From the current situation of China, the city has just reached 50%, China is a newcomer country of high density population, from a macro point we can say that both economic development and the process of urbanization will still fast grow.

At the same time, the regional development of the real estate industry is also showing the imbalance, region segmentation is significant. China's real estate development is uneven, on the one hand, it is proved by the development of the eastern coastal areas much faster than the central and western regions, on the other hand, it is shown by the real estate investment in Guangdong, Shanghai, Beijing, Jiangsu, Zhejiang, which five cities have taken trading accounted

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15 China real estate yearbook 2007
16 China Real Estate Index System Database
for more than half of the country. From the spatial distribution point of view, China's real estate industry growth will be mainly in eastern China, the future of real estate investment center will also be concentrated in five provinces and cities in the eastern part of the above. While urbanization in some areas also need to be vigorously developed, where rigid demand in the real estate market is the main one, cities like Beijing, Shanghai have already been very mature, even showing unhealthy speculative demand in real estate market. Overall, there is a great gap between eastern and western China. This is adapt to the level of regional economic development, as well as to the extent of economic reform in the area.

In order to alleviate the prices of heating up again, more attention had been paid to the housing structure. Since 2011 the capital investment of low-rent housing construction was increased, and a number of protection of housing-related policies were issued. hoping the house prices in the next 2-3 years can have a rational regression.

0.3 Research method

Literature collection: Arrange and study related research thesis which focus on urbanization progresses, real estate market, real estate market, and the relation between them.

Site survey: Mainly take Shanghai as example to understand the problems in urban construction due to the overheating real estate.

Example study: Analysis of famous examples of Real Estate Bubble in different countries (United State, Japan, Russia, Spain...).

Comprehensive analysis
1. Urbanization and evolution of urbanization

1.1 Definition of urbanization

Since the Industrial Revolution, urbanization diffuse all over global, the concept of urbanization has been described from different perspective as demography, geography, sociology, economics. From the perspective of human behavior, sociologist defines that urbanization is the process of transformation of people's behavior and lifestyle of rural communities to urban communities. Demographers emphasized that urbanization is the process of growing rural populations to cities. Geographers consider city as a geographical landscape that urbanization is the transformation process of the rural regions to urban regions. Economists focus on the industrial structure changes that urbanization is the process of change from agriculture to non-agricultural sector. Historian believes that urbanization is process history of shift from the traditional agricultural society to a modern industrial society."17

Louis Wirth proposed "Urbanism as a way of life"18, Ralph E.Turner said "The Industrial City: Central of Cultural change"19, Morris Axelrod considers urban as "Urban structure and social participation"20, Milos Macura said "The Influence of the definition of the urban place on the size of the urban population"21.

Its central importance was spelt out more than half a century ago in Tisdale's (1942) description of urbanization: "Urbanization is a process of population concentration. It proceeds in two ways: the multiplication of the points of concentrations and the increase in size of individual concentrations'. Fielding (1982) has defined urbanization as being where there exists a direct urban-system-wide relationship between the rate of net migratory growth of settlements and measures of their urban status.22

1.2 Process of urbanization

The process of urbanization generally would go through 4 phases as below:

Urbanization:

Physical growth of urban areas as a result of global change or the increasing proportion of the total population becomes concentrated in towns.

Suburbanization

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18 American Journal of Sociology, July 1938, p44
20 American Sociological Review, February 1956, P21
22 Ronan Paddison, 2001, <Handbook of Urban Studies>, p144-146
Many residents of metropolitan regions work within the central urban area, choosing instead to live in satellite communities called suburbs and commute to work via automobile or mass transit. This is one of the many causes of the increase in urban sprawl. These processes often occur in more economically developed countries, especially in the United States, which is believed to be the first country in which the majority of the population lives in the suburbs, rather than in the cities or in rural areas. Proponents of containing urban sprawl argue that sprawl leads to urban decay and a concentration of lower income residents in the inner city.

Counter urbanization

The movement of people and places of employment from large cities to places outside the cities—these may be small towns, villages, or rural areas. The push factors include: high land values, restricted sites for all types of development, high local taxes, congestion, and pollution.

Re-urbanization

Re-urbanization is a process of reintroducing a critical mass of people living once again in the Regional Centre. Face of the economic structure and population decline, old cities try to adjust the industrial structure, develop high-tech industry and the tertiary industry, improve the downtown weak areas, to attract young professionals back to the city to live.

It has been summarized from Ronan (2001) that reflecting urban analysts' preoccupation with 'decades' of change -- a very unhealthy feature of urban studies, but an understandable one bearing in mind the frequency and incidence of population censuses - a picture has emerged of 'urbanization' predominating in the 1950s and 'suburbanization' accelerating in the 1960s, with the 1970s emerging as the 'decade of counter-urbanization'. The significance of the latter has remained a hotly debated topic, with past predictions for the 1980s and beyond variously suggesting a fuller development of centrifugal tendencies, a return to the 'normal' processes of metropolitan and urban concentration after the 'anomalous 1970s', and a period of “re-urbanization” associated with a natural progression through sequential stages of urban development in some form of cyclic pattern.  

An approach was devised by Hall (1971) who suggested a four-stage model of metropolitan-area development as it shown in the figure. An additional feature added to this approach subsequently by Klaassen et al (1981) is the idea of a recurring cycle:

The four stages is then subdivided into two phases based on the switching of either core or ring between gain and loss (which determines whether centralization and decentralization is absolute or merely relative), giving a sequence of eight phases altogether.  

Ronan Paddison, <Handbook of Urban Studies>, 2001, P143
Ronan Paddison, <Handbook of Urban Studies>, 2001, P147
1.3 Measurement of urbanization

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Ronan Paddison, 2001, <Handbook of Urban Studies>, p146
Phenomenon of urbanization involves a wide ranges, it is not an easy work to measure the degree of urbanization. Jack P. Gibbs said the conventional measure of the degree of urbanization is based on an arbitrary minimum urban size limit and does not reflect the urban size hierarchy. Two measures are proposed as alternatives—the scale of urbanization and the scale of population concentration. The former, like the degree of urbanization, is based on an arbitrary minimum size limit; but it does reflect the urban size hierarchy. A measure of scale of population concentration also reflects the size hierarchy, but it considers all points of population concentration. Comparisons among 18 countries and over time in the United States reveal that all three measures are closely related. However, there is evidence that in highly industrialized nations the scale of urbanization is now changing at a greater rate than the degree of urbanization.

So we can see there are two measures are proposed as main standards to understand the degree of urbanization: the scale of urbanization and the scale of population concentration.

The scale of urbanization

It is based on status of land use, an indicator of urbanization level up from the nature of the land and geographic scope. Method of statistics is within a certain time, the change ratio of non-urban land use (such as agriculture, grasslands, mountains, forests, beaches, etc.) into urban land use (such as factories, commercial, residential, cultural and educational).

The scale of population concentration

If U expresses the urban population, P expresses the total population. The PU is given by the formula: \[ PU = \frac{U}{P} \times 100\% . \]

The proportion of urban population is the most commonly used indicators of urbanization measure. When talking about the urbanization rate, this thesis mainly take the data of proportion of urban population.

1.4 Dynamic mechanism of Urbanization

The dynamic mechanism of urbanization is the necessary power generation mechanism to promote the urbanization process, as well as to maintain an integrated system of a variety of economic relations, organizational system to improve the mechanism. This article would discuss this issue from the economic factors, demographic factors, institutional and other factors to analyze the dynamic mechanism of China's urbanization.

1.4.1 Economic factors

The long-term economic development is the dynamic mechanism of the process of sustainable urbanization. To get the result of economic factors is the main driving force in promoting urbanization, Economist Paul - Belloc analyzed from overall economic growth and urbanization,
Chenery\textsuperscript{28} from the point of the relationship between GNP per capita and the level of urbanization, Kuznets\textsuperscript{29} talked from number between Industrial Structure and Urbanization. From an economic point of view, we can discuss urbanization dynamic mechanism from the following aspects:

(1) The promotion of industrialization. There are obvious close relationship between industrialization and urbanization. Narrow definition of industrialization focus on the aggregation of different elements, while a high degree of combination in a limited space of the financial, human resources and technology and other factors of production is bound to promote the formation and development of the city (town), and this phase is based on agricultural surplus (surplus product and the process is capital surplus and the remaining elements) to the flow and accumulation of non-agricultural industries and urban areas. Broad definition of industrialization can be understood as "development" or "modernization", in addition to the industry spatial aggregation, also involves the adjustment of industrial structure and the evolution of people's material and cultural living standards improvement and so on, all this again change the shape and size of the city, thereby affect the development of urbanization process.

(2) Development of tertiary industry. Japanese geographers Matsuhisa Mi (2002)said that modern urbanization process is the aggregation behavior of secondary and tertiary industries. The development of modern society and industrial modernization contributed to development of tertiary industry. Under modern conditions, with the increase of production and distribution capacity of the community as a whole, the acceleration of the market exchange rate will inevitably promote the new demands on productive services to the city. At the same time, urban residents also proposed new requirements of consumer services due to the improvement of living standards. CGClark stresses of urbanization as a "\textit{primary industry declining population, the second and tertiary industries growing population process}"\textsuperscript{30}.

(3) Comparative advantage. On one hand, consider the comparison between the interests of the industry, agriculture is an industry with less comparative advantage as opposed to the second, third industry. With the non-Ministry of Agriculture push and the inner thrust of tension of the agricultural sector, within the capital, labor and other production factors from agriculture will inevitably flow to the non-agricultural sector. The famous Petty – Clark law described under comparative advantage-driven economic development, labor force move ‘from agriculture to manufacture, and from manufacture to commerce and services', or ‘from primary production to secondary and tertiary'\textsuperscript{31}. In practice, accompanied by various factors of production from decentralization to centralization, transfer from rural to city (town), the industrial structure also show transformation from agriculture to non-agricultural, traditional industries to modern industries, from labor-intensive industries to the conversion of knowledge and technology-intensive industries, this process closely linked with the urbanization process.

\textsuperscript{28} Theorists of Economic Growth from David Hume to the Present, 1990, Oxford University, p366
\textsuperscript{29} Kuznets, 1966, Modern Economic Growth: Rate, Structure and Spread. New Haven and London: Yale University Press
\textsuperscript{30} Cai Junhao, Chen Xingyu, 1999(05), Re-understanding of the essential meaning of urbanization【J】，Research of urbanization development, P22-25
\textsuperscript{31} 14 Clark 1940: 448-449. 176-177. 341. citing pa:256,267; see also Clark 1984:70
Meanwhile, with the strong development of the tertiary industry in cities, urbanization is bound to show the trend of accelerating under the drivers of comparative advantages. On the other hand, from the aspect of comparative advantage between urban and rural areas, due to the secondary and tertiary industries to vigorously develop the economies of scale and aggregation of economic benefits, there will show the enormous attract tension for benefits; In rural areas, the increase in poverty and the existence of a large number of surplus labor would form a tremendous thrust, the interaction between urban and rural areas will inevitably lead the various elements poly to the city, which is the basic driving force of urban development.

This issue straightly causes the difference of value and function in space. There are several models were made to discuss the regional economics related to the urbanization of land.

![Figure 1.3 Von Thunen's model](image)

is concerned with land use patterns. Transport costs vary with the bulkiness and perishability of the product. Product A is costly to transport but has a high market price and is therefore farmed near the city. Product B sells for less but has lower transport costs. At a certain distance, B becomes more profitable than A because of its lower transport costs. Eventually, product C, with still lower transport costs, becomes the most profitable product. The changing pattern of the most profitable produce is therefore seen as a series of land use rings around the city. This phenomenon may be illustrated by a graph showing the varying locational rent of three products, the most profitable product at each point, and the land use pattern which results.
W. Alonso's (1964) explanation of urban land use and land values. Alonso added the quantity of land required, and variations in the amount of disposable income used on land and transport costs on one hand, and on all goods and services on the other. If the amount of goods and services is held constant, the price of land should decrease with increasing distance from the centre. The well-off will choose to live at lower densities at the edge of the city; the poor remain in high density occupancy near the city centre. The quantity of land that may be bought should increase with distance from the centre, but commuting costs will rise with distance from the centre so that the quantity of wealth available for land will decrease. Each household represents a balance between land, goods, and accessibility to the workplace.

(4) The basic role of the capital. Economics believe that the driving force behind urbanization is the accumulation and circulation of capital, the entire process of urbanization is the embodiment in the urban region of capital expansion and reproduction. Such as industrialization and urbanization process described in Lewis's model of population movement, capitalists' profits reinvested is based on expansion of the industrial scale, absorb rural surplus labor force. The late 1970s, British economist David Harvey (2002) consider that "urbanization and industrialization both as a social phenomenon, and Marx's theory of capital accumulation to analyze the urbanization process of the capitalist society." Harvey further mentioned the concept of "three cycles of the capital", and therefore discussed the circulation of capital in different forms bring out the consequences of urbanization. This analysis furtherly broaden the field of urbanization. Of course, in the entire process of urbanization, the basic role of domestic capital and domestic market development cannot be ignored. The capital is the main power of urbanization.

1.4.2 Demographic factors

In the rich content of "urbanization", the "conversion" of the labor career, urbanization of the population and the attitudes and lifestyle changes are related to demographic factors, and it tends to promote the urbanization process interaction with the economic, regulation, policy and

32 David Harvey, Rebel Cities: From the Right to the City to the Urban Revolution, 2002, Verso Books press
other factors. Such as Petty - Clark's Law and Lewis model of population movements, respectively, reflecting the transfer of labor between the different industries and the flow of surplus agricultural labor to urban industrial sector, this process is accompanied by industrialization and urban process. The source of population growth in urbanization achieves mainly in three aspects: natural growth within the city, geographical expansion of rural - urban population net migration, and city administrative or change of criteria classification. In addition, the cultural quality of the population, ideology and labor skills will push the process of urbanization, we can grasp on this role in two ways: one is changing with the gradual increase of people's living standards and values, the residential area shows the trend of migration to the suburbs, and thus there would be an important impact on the process of urbanization; On the other hand, the quality of the workforce, ideas, skills would affect the regional economic development, thereby affecting its urbanization process. Finally, from the perspective of investment subject we can grasp the dynamic effect of demographic factors on the process of urbanization.

1.4.3 Institutional factors

Institutional factors are key to the economic development, efficient institutional arrangements will promote economic growth and development. As a social phenomenon and institutional factors appear along with socio-economic growth and structural change, urbanization is closely related to the process described the change that human social organization of economic activity and its living communities in the institutional arrangements (village) transfer to the new arrangements from the traditional system institutional arrangements (city). Institutional factors directly or indirectly affect the flow and reorganization of the different regions or in the same area in different periods of labor, capital and various other economic factors in different spatial area.

In various factors that affect urbanization, institutional factors not only directly reflected in the urbanization policy of a country or region, but also remote or delay or even hinder the process of urbanization of a region by arrangements of industrial structure and economic elements of the current institutional arrangements and other institutional arrangements. The core of institutional factors in the process of urbanization is mainly reflected in the following aspects:

(1) Through an efficient system to promote agricultural development, promote the improvement of the efficiency of agricultural production and agricultural output, the agricultural sector maintains the departments reproduction while produces agricultural surplus (surplus products, capital surplus and elements remaining), providing thrust for the healthy development of non-agricultural industries and urbanization.

(2) Arranging through an efficient system of promoting industrial development of non-agricultural industries, promote industrialization and conversion of the national economy, so as to absorb the agricultural surplus.

Gao Yunhong, 2002, Research on China's Dynamic mechanism of Urbanization, Guangdong University of Business
(3) Arranged through efficient economic factor mobility system, so that the elements of the agricultural sector can outflow (in the open economy also include foreign excess elements flow in) and the elements of the non-agricultural sector into the tension to form a combination with gathering force.

(4) The efficiency of the propulsion system of urban construction arrangements to promote the development of urban infrastructure and urban real estate to meet growing needs of the urban non-agriculture and the concentration of population.

1.4.4 Other factors

In other factors that affect the process of urbanization, technical factors are particularly prominent and important. As the first industrial revolution and urbanization is the invention of the steam engine triggered. The appearance of corresponding technology, the development of the automotive industry leads to the "suburbanization" and "urban-intensive zone". Application and popularization of the computer greatly strengthen the service functions of the city, driving the entire process of urbanization.

Finally, the process of urbanization is also affected by some special factors. Such as for national defense and security considerations in a number of strategies to establish the center of town, for the border trade requirements, accelerate the construction of border trade towns to improve its radiation, for accelerating the development of tourist industry to build tourist areas and tourist towns.

1.5 Speed of urbanization progress

![Figure 1.5 Process of urbanization](image)

There are large disparities from the perspective of the start time, the pace of development and the level of urbanization among different countries and regions, but the world’s urbanization practice, the process of urbanization has significant stage logic. In 1979 American Geographers Northam found in the research process of urbanization in developed countries that the urbanization process experienced general trajectories that

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can be summed up into a slightly flattening "s" shaped curve\(^{35}\). There are two types of urbanization curves are mentioned. One is S-shaped curve, and the other, J-shaped curve. The S-curve can be modeled with the logistic function, while the J-curve cannot be described by the logistic function. The former is applicable to the developed countries, whereas the latter is applicable to the developing countries. So far, there have been more studies on the S-shaped curve.

The logistic curve was once divided into three stages by Northam (1979): initial stage, acceleration stage, and terminal stage. However, the Northam’s proposal is just a phenomenological theory with several defects: first, the definition of ‘acceleration stage’ is not correct; second, there are no theoretical basis and critical scale for the divisions. It can be proved that the logistic process falls into four phases. Taking half of urbanization level capacity as a tipping point, the logistic curve is divided into two stages: acceleration stage (urban majority) and deceleration stage (urban minority). The tipping point can be determined by two methods of elementary mathematics. Then the two stages are respectively divided into two sub-stages by means of the exponential law of urban-rural ratio with a parameter as characteristic length. Now, urbanization process can be divided into four stages: initial stage, acceleration stage, deceleration stage, and terminal stage. Also it can be divided into three stages: initial stage, celerity stage (including acceleration stage and deceleration stage), and terminal stage.

1. **Initial stage:** the urbanization rate is generally lower than 25%, urbanization rate increased by slow;

2. **Acceleration stage:** the urbanization rate is generally between 25% and 50% urbanization rate increased very fast;

3. **Deceleration stage:** the urbanization rate is generally between 50% and 75%, urbanization rate increased by slow acceleration, but faster than the initial period.

4. **Terminal:** the urbanization rate is generally higher than 75%, urbanization rate increased by the slow pace of urbanization rate remained stable\(^{36}\).

### 1.6 Evolution and driving mechanism of spatial structure in the process of urbanization

#### 1.6.1 Spatial evolution of urbanization

A. Spatial evolution of urbanization in early stage: concentration of urbanization

In the evolution of urban and rural spatial structure, there is always a pair of spatial interactions, which is concentration and diffusion. Agglomeration is the space-intensive process which is caused by flow of economic elements, the fundamental driving force is the pursuit of human economic activity on agglomeration economies. In other words, a

\(^{35}\) Northam. R M. Urban Geography. 1975, New York: john wwey &sons

variety of resource elements in the flow planning, in an orderly manner to form a specific structure, distribute in space a point, are often able to produce economic effect that people expected, which can be called combined effect.

In the early stage of urbanization, the power of the combined effect of regional economic agglomeration trend is very significant, agglomeration and scale economy become the main features of economic activity. Because at the beginning it is limited by the scarcity of resources, industrialization process bases on the city would start in those minority economic centers that is usually has some advantages or areas which is traffic hub or has mineral resources. Subsequently, affected by increasing scale of returns, there begins the gather cumulative growth cycle, the first industrial region continues to attract a variety of resources within its sphere of influence around, and supply of goods and services, play a leading organization of political and economic function, and gradually grow into the core area, other parts becomes the peripheral region. In this process, capital and labor flows to the core area, from the perspective of space is the rapid development of the central city, and dominant in the region. Therefore, in the early stage of urbanization, gathering mechanism inherently promote the formation of concentrated urbanization, making it the main space evolution of this phase.

B. Spatial evolution of urbanization in the later stage: the diffusion of urbanization
Concentration and diffusion can be transformed into each other, when urbanization enters the later stage, diffusion will rise to a dominant position, becomes the main feature of this stage. There are several factors causing the spread: First, to avoid agglomeration economy. When the clustering scale is beyond a certain limit, it will cause a phenomenon that gathering no economy. Second, is to seek new development opportunities. Due to the highly competitive market the core area becomes saturated, forcing the enterprise or industry sector to the peripheral regions to open up new markets, to reduce the pressure of competition. Third, is the government intervention. To narrow the economic development gap between the region, governments often take effective measures to control the excessive accumulation, induce and mandatory elements of resources and the industrial sector from centralization to decentralization. Therefore, in the late stage of urbanization, the diffusion mechanism promotes urbanization to diffusion development, making it the main rule of space evolution of this stage. See the manifestation of the geographical space, the agglomeration process leads to a centralized urbanization, cause the increase of urban population density, the diffusion process led to the diffusion of urbanization, cause the city to be extend, causing the city regionalization.

Take the United States for example, before 1920, the American central city population growth rate is higher than the outskirts of population growth, such as in 1900-1910 and 1910-1920 years, the center of the city population growth rate were 35.5% and 26.7%, respectively, higher than 27.6% and 22.4% of the suburbs, which shows the U.S. population is still mainly concentrated to the center of the city. However, in the 1920s,
the U.S. central city population growth rate is 23.3%, while in the suburb is 34.2%\textsuperscript{37}, the latter exceeds the former by nearly 11 percentage points. Since then, the suburban population growth rate has been higher than the central city, and the gap is growing. This means that since 1920, the United States got into the late stage of urbanization, began proliferation of urbanization.

1.6.2 Introduction of important theory of evolution of urban spatial structure

Variety of urban economic activity in the urbanization process will eventually be implemented in the form of certain space, from the perspective of space, operation of urban economy is the process of adjustment of various elements in different location. The use of land structure of urban has always been the core issue of planning. Here we introduce two influential theory of regional economical spatial structure evolution to understand the rule of evolution of spatial structure in the process of urbanization as economic development, One from American, one from China.

1.6.2.1 Evolution of regional spatial structure theory put forward by JR Friedman (1966)\textsuperscript{38}

American scholar Friedman (JR Friedman), published in 1966 in his book "Regional development policy", the evolution of the regional spatial structure is divided into four stages according to the process of industry. At each stage, the regional spatial structure showed a unique form.

(1)Regional spatial structure in the pre-industrial stage: This stage represents the pre-industrial period. The basic characteristic of regional spatial structure is spatial homogeneous disorder, a number of local centers, but there is no hierarchical structure differentiation between them. Due to the low level of productivity in this period, the economy is extremely underdeveloped, and generally in the low-level equilibrium, correspondingly the spatial structure of the region is composed by a number of independent local centers and vast rural, each local center occupies a small par of place. Among these regions they are rather occlude, very little contact with each other.

(2)Regional spatial structure in the transitional stage: This stage is the early stage of industrialization. In the process of industrialization, somewhere got driving force from the accumulation over a long period or an external stimulus, economic grows rapidly, and become a regional economic center when developed to a certain extent. The generation of the center breaks the regional spatial structure of the original equilibrium. At this stage the regional spatial structure is formed by a single relatively strong economic center and backward outlying areas. the center attracts elements from outlying areas because of its advantage of economic development, continuing becoming more and more powerful, while the outlying areas are more tend to lag behind, thus the regional spatial

\begin{itemize}
  \item \textsuperscript{37} Datas from World Data Bank
\end{itemize}
structure is becoming more uneven.

(3) Regional spatial structure in the stage of industrialization: At the stage of industrialization, with the expansion of the range of economic activities, new economic centers appear in other parts. These new economic centers interrelate and combine with the original center in economic development and space, form a regional economic center system. Each economic center has with correspondingly sizes of the outlying areas, thus the region present in a number of scales of core - periphery structure. In accordance with the respective center location and relationship, these core - periphery structure combine with each other, constitute the spatial structure of the region. During this period, the regional spatial structure tends to be complex and orderly, and has a positive impact on regional economic growth.

(4) Regional spatial structure in post-industrial stage: During this period, the economic developments has reached a high level, increasingly close economic exchanges have taken place between the various parts of the region. At the same time, the contact of different level and scale of the economic center and its outlying areas are becoming more and more closely, narrowing the differences in their level of economic development. Therefore, the region gradually formed the spatial structure system of integration function. With the gradual disappearance of the boundaries of the center and outlying areas, the region will eventually go to spatial integration.

1.6.2.2 Evolution of regional economical spatial structure theory put forward by Lu Dadao(2005)

In 1988, Mr. Lu Dadao who come from the Chinese Academy of Sciences, published the book "Regional Location Theory and Regional Research Methods", Summarized the process of regional spatial structure is consists of four phases, which stands at the point of view of style of industry for each stage as J.R Friedman mentioned³⁹.

(1) Agriculture stage: At this stage, the overall productivity of the region is low, closeness of social production and life were significant, settlements were scattered within the region. With the development of commodity economy, city gradually appears, but there is no affiliation or hierarchical relationships in characteristic and scale, it is a low-level settlements system. Personnel, materials, information exchanges between urban and rural areas is less, regional infrastructure such as roads were in a low level, did not form a network. Overall regional spatial structure was in a situation of equilibrium at a low level, and was quite stable.

(2) Transition stage: Due to the impact of internal social change and the external conditions change, the regional economy is beginning to show rapid growth. Handicraft and the mining industry become increasingly prosperous, primary raw material industry and manufacturing gradually rise, water transportation, railway and road transport began

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to appear, accompanied by expansion of regional commodity production and exchange, meanwhile large number of rural population flows into cities, relation between urban and rural areas is strengthened. Regional economic growth mainly occurred in the city, resulting in imbalance of regional space, space away from the edge of the city region is still in a very underdeveloped state.

(3) Industrialization and economic stage: Driven by technological progress and social change, social productive forces are further liberated, the regional economy began to enter the strong dynamic period of growth. From the point of industrial development, mainly in iron and steel, machinery, chemicals, power, textile, and other secondary industry and tertiary industry has developed rapidly, transportation network goes into various parts of the region. Original city in the region gradually developed into the metropolitan, centers from the second and third levels gradually grew up. The formation of a single core - periphery structure has gradually evolved into a multi-core structure. Between urban and rural areas, the cities the exchanges becoming increasingly active in this process, the hierarchy of the city began to take shape, backward areas at the edge thus also get a certain degree of development.

(4) Technology industry and high-consumption stage: During this period, due to the rapid development and wide application of science and technology, the regional social productive forces has been highly developed, modern transportation and communication networks has formed, difference between regional imbalances and employment, income, level of consumption and choice of opportunities gradually disappear. More adequate and reasonable use of space and resources within the region has been taken place. Urban residential areas, service facilities and their sphere of influence have formed their own hierarchy. Part of regional spatial structure is fully integrated into an organic unity, the spatial structure achieves "balanced" state at a high level. The formation and development mechanism of the regional spatial structure are composed by interaction of multiple forces.

1.6.3 Dynamic mechanism of spatial structure evolution

In this part we want to explain those main actors and their interaction, to understand their impaction on the evolution of spatial structure. *The process of pursuit of the interests and meet the needs by different stakeholders in the city, is the process which driving force main to play its role. Differentiation and conflict of their interests, meanwhile are also the interactive process between those dynamic actors, and regularity in the interactive process model, is the so-called dynamic mechanism.*

1.6.3.1 Main body of driving force

Government: The Government’s policy, strategy will result in structural changes in urban space, the state investment is often a decisive role in urban development.

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40 Shi Song, Series No.159 2004, The Dynamics of Urban Spatial Structure's Evolution, Urban Planning Forum
Enterprises: as economical unit of the city, enterprises always try to minimize the cost of inputs in exchange for maximum effectiveness, which constitutes the basic principles of choosing the spatial location in the city. Industrial space based on art advances in the spatial pattern of the city as a whole occupies a dominant position, therefore, the enterprise is the main motivation for a system of urban space structure evolution.

Resident: in order to maintain their own specific interests in the urban space and land use, city residents participate in business and residential investment. But compare to government and business, it's not much affective. More mature in the market-oriented countries and historical periods, the city resident's impact on urban spatial structure would be more obvious.

1.6.3.2 Force: basic driving force, internal driving force and the external force

Sun Shiwen (2003) combined with the analysis of the main actor, integrated those main forces into three forces: the basic driving force, internal driving force and external force. Basic driving force: the technical process. The internal driving force: urban economy. It is worth noting, it is enterprises the main factor in technological innovation and urban economic, rather than the government and residents. External motivation: social organization and political power. Main part of social organization is residents, through outline of the strategy, planning programs, the government develop and balance the interests of all parties, the urban spatial structure tends to be more reasonable.

1.6.3.3 External constraints: the urban ecological environment

Urban spatial structure, after all, is applied in the natural environment on the basis of

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41 Shi Song, Series No.159 2004, The Dynamics of Urban Spatial Structure’s Evolution, Urban Planning Forum
the results of humanistic role, it must be subject to external constraints of the natural environment, the city’s ecological environment is bound to restrict the pattern of urban spatial structure.

1.7 World urbanization profile

As early as the period of changing from primitive society to slave society, there have been cities. However, in a fairly long historical period, the increase of urban development and urban population was extremely slow. Until 1800, the world’s urban population is only 3% of the total population. Large-scale urbanization has occurred along with the Industrial Revolution from the 1760s. Industrial Revolution aroused large-scale use of machine production, demanding the relative concentration of labor factor, coupled with the attraction of industrial regional labor market prices, which leads a rapid concentration of rural population to some central region. Concentration of population has also brought market activity, the development of business operations, and services, the crowd concentration itself created employment opportunities.

Here are some figures that we can understand urbanization situation after the year 1950 to now and some perspectives.

figure 1.7 Urbanization process from 1950 to 2020

Now while urbanization has considerably slowed down in developed countries, the developing world is where cities are growing the most. It accounted for 68% of the urban population in 2000 and by 2020, 77% of the global urban population is expected to be in developed countries.

1.7.1 Urbanization process of developed country

Industrial Revolution in the 1760s prompted the development of urbanization. In 19th century, developed countries has significantly speed up the process of urbanization, towns and villages become towns, small towns become urban areas, rapid growth of urban population has been taken place in the next few decades, most developed countries have been through the initial stages of urbanization, high-speed development stage and mature stage.

As the level of economic development and industrialization process changes from country to country, the development time of urbanization in developed countries also demonstrate inconsistencies.

Britain is the first country in the world starting the urbanization process. Before the Industrial Revolution in 1750, the British only has more than 2,500 urban population accounted for only 25% of the total population. In 1801 the number increased to 33.8 % and in 1851 rose to 50.2%, 1911 reached 78.1%, while the rural population changes from 75 % to 21.9 % from a half century ago.45

The process of urbanization in the United States was much later than in Britain, but in the period of year 1860-1920 there has been a rapid development of urbanization process. In 1860, there is only less than 20 percent of urban population in United States, the number changes to 51.2 percent in the year 1920, in 1950 this number become 64.2 percent, until 2010 it has reached 82.1%.46

From the start of the 1960s, in the process of urbanization in developed countries, there have been a reverse urbanization, also known as suburbanization or counter-urbanization. The main performance is the significantly reduction of the large urban population, large number of population migration from central cities to suburbs and distant rural areas.

1.7.2 Urbanization process of developing country

In the late 1970s, the urban population of developing countries has already get over the urban population in developed countries, the urban population of developing countries in 2000 accounted for the world’s urban population more than 60%. The characteristic of urbanization in developing countries is:

(1) Start lately, develop rapidly.

Urbanization in developed countries started in the mid-18th century, urbanization in developing countries started after the Second World War. There are about two centuries between these two. Urbanization in developing countries, though started late, but the urban population growth rate has exceeded developed countries. It is predicted that by 2020, the proportion of rate in urban population in developing countries and developed countries is about 3.5:147, which indicates that urbanization in developing countries constitute the main body of the World Urbanization.

(2) Low level of urbanization

Due to the large number of rural population, rapid growth in developing countries, urbanization level is far behind developed countries. In 2000 the urban population in developing countries accounted for only 39.3%.48

45 United Nations, Department of Economic and Social Affairs, Population Division (2011)
46 United Nations, Department of Economic and Social Affairs, Population Division (2011)
47 United Nations, Department of Economic and Social Affairs, Population Division (2011)
48 United Nations, 2011, Department of Economic and Social Affairs, Population Division
The problem in the urbanization of developing country is: ① Urban population growth is incompatible with the level of economic development: raising level of urbanization in many developing countries, mainly due to the abnormal development of the urban economy, and excessive population growth, rural labor surplus and other causes, the result is the level of urbanization and economic development are incompatible. ② A few big cities abnormally developing, urban environmental issues stand out. Rapid expansion of big cities in some developing countries, but slow development of small and medium-sized cities, people gather in a small number of major cities. Because that this urban population growth is an abnormal growth, incompatible with the time and level of economic development, there will be a series of urban environmental issues.

Differences between developed and developing country cities could be mainly summed up as follows: ① Urbanization took place much earlier in developed countries than in developing countries, the former started in the mid-18th century, the second one started after World War II, a difference of about two centuries. ② The level of urbanization in developed countries is much higher than the level of urbanization in developing countries. ③ After World War II, urban population growth rate in developing countries is higher than in developed countries. ④ At present, proportion of large, medium, small city are comparatively reasonable in developed countries. In developing countries, the scale of a few big cities is sharply expanding, while small and medium-sized cities develop slowly.
2. The characters of Chinese real estate

2.1 Introduction of real estate

In the oxford dictionary, real estate is either property in the form of land or buildings, or the business of selling houses or land for building.

Real estate is land and the improvements on it. Real estate is one of the primary assets whose value does not depreciate over time. Depending on the particular title, ownership of real estate may include mineral rights to any geophysical aspects occurring thereon. Ownership of real estate does not automatically include the right to develop it, depending on local regulations. However, development of real estate (for example by building a house on it) usually increases the value. While supply of real estate does not vary, demand may change greatly depending on its particular features, number of people in the area, and cultural differences regarding land ownership. It is an attractive form of collateral because it cannot be stolen or destroyed.

Every assumption about the investment choice in the real estate market should preliminarily and essentially consider that the real estate market is sensibly different from the ideal model of the perfect and pure competition market.

2.1.1 Real estate features

Real estate market has the features below:

Durability - Real estate is durable. A building can last for decades or even centuries, and the land underneath it is practically indestructible

Heterogeneous - Every piece of real estate is unique, in terms of its location, in terms of the building, and in terms of its financing. This makes pricing difficult, increases search costs, creates information asymmetry and greatly restricts substitutability. Wall Street likes to compare every investment to stocks, which can be treated as universal in nature. However, real estate cannot be so easily defined, so what happens in San Francisco will not equally happen in Miami, or New York, or anywhere else. To forget this is a tragic mistake. Although there will be some events that will be similar in the diverse real estate market, real estate is essentially a local commodity that will rise and fall in long-term value based on what goes on in that very local market.49

High Transaction costs - Buying and/or moving into a home costs much more than most types of transactions. These costs include search costs, real estate fees, moving costs, legal fees, land transfer taxes, and deed registration fees.

Long time delays - Timing is very important to just about every decision you can make, and when it comes to investment decisions, timing is generally the most important aspect of the entire

Also the market adjustment process is subject to time delays due to the length of time it takes to finance, design, and construct new supply, and also due to the relatively slow rate of change of demand.

Transformability- Real estate also has the feature of transformability. That is to say, as time goes by, the value of the real estate changes. But the way of change is not always the same, it will depends on some elements. There is a model—Evans integrated model, explains the mechanism of changes of the real estate and the land.

**figure 2.1** Evans model 1 (integrated by Professor Sergio Mattia)

The first situation shows that in case of general, how the value of real estate decreases along the time. Light blue line shows the change of value without the maintenance, while the dark blue (from Professor Sergio Mattia) shows the change of value with the maintenance. Once maintained, the value increases a little.

**figure 2.2** Evans model 2 (integrated by Professor Sergio Mattia)

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These pictures show the relationship of land value and building value. The light line is the land value. When the land value is higher than the building value, the existing building might be changed to a new one, while if the land value grows too slow, there will be a period that in this area, there would be no new construction until the land value increases.
The value is also influenced by the government. This two pictures show once a building becomes historic building which has to be protected, the life circle and the value of it will increase, but the land value decrease. But once the area can be constructed other new buildings, the land value increased again as it shows.

Both an investment good and a consumption good - Real estate can be purchased with the expectation of attaining a return (an investment good), or with the intention of using it (a consumption good), or both. These functions can be separated (with market participants concentrating on one or the other function) or can be combined (in the case of the person that lives in a house that they own).

Immobility - Real estate is immobile. Consumers come to the good rather than the good going to the consumer.

2.1.2 Three environments to evaluate real estate

In the Heterogeneous features we mentioned above, there are three environments that we could use to identify the character of the real estate.

The first environment is the landscape, is nothing else but the world of physical objects to which a particular real estate asset belongs. It is easy to limit the first environment field in order to make it merge to the real estate structure. The first environment is at the same time: a unique, complex and complete system and an evolutionary process.

The second environment is the subjective perception of landscape. It is not unique. Because as it results from a consideration that is completely natural: every landscape is perceived in different ways, depending from the subject that examines it. It should be referred to the existence of real mind processes (or conscious subjective experiences) that determine the construction of opinions and/or behaviors of the numerous and subjective visions -that are physical, cultural and
social – of the objects that form landscapes. In most of the occasions, the second environment is not completely defined. Every individual or collective subject creates, as a matter of fact, its own real world, in the direct, active and selective exploration of a particular physical environment. This process of de-codification of the physical world determines, moreover, the definition of sectorial environments, that should be related to the different visual interrelations established from every subject to every element or process belonging to landscapes.

The third environment is set of the social constructions. The third environment is the result of the political-legislative, demographic-social, cultural-technological and economical systems. The specific nature of real estate assets influences and increases, as it is sometimes decisive, the continuously varying influence exercised from Environment n. 3 to the behaviors of the different stakeholders.

2.1.3 Real estate value

After we know about the different features and environments of the real estate, we can define the value of a real estate. Generally, in the real estate market, the value we speak is the market value. Market Value is a key concept in establishing an informed expectation as to the price for something, one that is neutral as between buyer and seller. The nature of the market in which that value is determined will differ according to the subject of the trade while market conditions will vary with the changing balance of supply and demand, changing knowledge, fashion, rules, expectations, credit conditions, hopes of profit and other circumstances.\(^\text{51}\)

2.2 The characters of Chinese real estate

In this part, the writers mainly introduce the characters of Chinese real estate, the stakeholders of Chinese real estate, and the generative mechanism of bubble in Chinese real estate. This, after the point of development of the city, from a point of economy, will let us understand the general situation of Chinese real estate.

In 1978, China began the reform and opening up policy, basically realized the transformation from planned economy to market economy, and stimulated the development of economy. However, due to the special national conditions, the government and the government official often mix the national interest with the local interest and the interest of themselves, the Chinese real estate has shown the different characters comparing with the other developed countries.

Basically, there are two characters:

1. Chinese real estate is an industry which is still immature and half-marketized. The reason of half-marketization of Chinese real estate is the asymmetry of information in this market. And the asymmetry of information between the stakeholders of Chinese real estate refers to the government and the developers which have the great majority of information, at the meantime, most of the information is opaque and not published, hence they have advantage in

\(^{51}\) the European group of valuers’ association, EUROPEAN VALUATION STANDARDS, 2012 SEVENTH EDITION,
2. Chinese real estate involves many stakeholders.

In the recent 10 years in China, Chinese real estate industry is an industry with high profit ratio, becoming one of the engines of the economy. The stakeholders of Chinese real estate are central government and its ministries and commissions (central bank, Ministry of Land and Resources, Ministry of Construction, National Development And Reform Commission), local government and its government official, developer, purchaser, investor (speculator), commercial bank and media… they have different interest appeal and different restraints, hence they usually cooperate and restrict with each other to influence the price of house and get their own interest.

2.3 The stakeholders of Chinese real estate and their behavior

Chinese real estate is a typical system, the elements in it are called stakeholders of Chinese real estate, in the operation Chinese real estate they interact and restrain with each other to get the maximum interest, and the bubble of real estate comes from their interactions.

The elements we mentioned above, local government, developer, purchaser, investor (speculator) and commercial bank are the elements more important, and affect more to the Chinese real estate. The interest appeals of them are different but sometimes they can achieve win-wins. Now we are going to analyze the behaviors of the stakeholders.

2.3.2 Public actors

2.3.2.1 Central government
The central government is the State Council. According to the constitution of China, the State Council is the executive organ of the highest organ of state power, is the highest administrative organ in China.

The main goal of the central government is stabilize the finance, control the oversize real estate bubble and prevent large recession, to boost the develop of the economy. In recent years, the real estate promoted the economy development, improved the living standard of the residents. However, it also brought some problems like housing demolition and relocation, occupation of the land, and increasing of the housing price.

In the boundary of central government, the departments which are related to the real estate are central bank, Ministry of Construction, Ministry of Land and Resources, National development and reform commission and Ministry of Finance.

The central bank is an important department of central government, is also the executive agency of government to make macro-control using monetary policy, and the supervision bank of other commercial banks. The central bank regulates and controls the real estate activities and other economic activities by using the lever of reserve fund, interest rate and exchange rate. For example, in 1997, the mortgage policy of real estate promoted the total development of real estate market. However, the No.121 document in 2003 executed the early warning to the credit and risk control problem of the real estate market.

Ministry of Construction is the department of research and making the plan of the construction, city and town development, architecture and real estate, and is also the department of supervision. Ministry of Land and Resources is mainly responsible for the planning, management and usage of land recourse and other recourse. National development and reform commission however, is responsible for establishing the strategic objective of national economy and social
development, making the long-term planning of social development. Ministry of Finance controls the real estate market by making the financial policy and tax policy, using the methods of revenue and transfer payment. The revenues which are related to the real estate are individual income tax and transaction tax...

In United State, as a city grows, so does the local government. City, county, and state ordinances becomes less developer-friendly. Zoning ordinances, the backbone of real estate use, have become the ever-changing, rarely constant, wishy-washy way which city council members demonstrate their power over developers. 52

While in China, since the 90s of 20th century, urbanization and economy of China entered the phase of rapid expansion and develop, in 1993~1994 it achieved it periodic peak. Then the central government began to make improvement and rectification of the overheating economy so the investment decreased, until 1996~1997 it reached its minimum. In 1997, housing mortgage has been carried out in the whole country, this policy which is powerful and stimulated the development of Chinese real estate. In the late 90s, the government also adjusts the interest rate to a lower point for several times, support the financial housing by loosening the monetary policy, so that the actual interest ratio almost fell to 0. According to the experience of the developed countries, in the mature real estate market of their countries, the lower interest ratio dramatically pushes forward the increase of assets price, and lead to the generation and conduction of the real estate bubble. After 1998, the increase and development of Chinese real state was like an abrupt rising curve, in 2000, the construction area exceeded 200,000,000 square meters. However, in 2001, basing on this, the investment rapidly increase 30%. 53 So in 3rd, June, 2003, in order to control the situation of real estate, the central bank had released a warning announce---- paper 121---- about the real estate credit due to the over fast developing and over weak controlling of real estate. As a role of superintendent and monetary policy maker, in most of the time, the central government prevents the swell of real estate bubble, does not want it to evaporate rapidly nor growing rapidly, but stabilize the housing price. Although there was up and down, but real estate play the part of wheel to bring it live the whole economy. This reform released a large number of potential social assets and national wealth, and brought the whole society to grow.

Before this reform, all of the housing of working unit is public, kind of belonging to the government, the real owner of the house is not the people who live there, who live there just had the ownership of living and using. In the beginning of the reform, it was allowed transfer the possession of the houses to the staffs and workers using quite little money. These house properties is the result of the construction of several decades, they exist as material wealth actually long ago, just before they cannot appear in the market, cannot being circulated, cannot being traded, do not have the value of preserve. That is to say, the real value was being hidden. Through this reform, a large number of capital flowed into the market, the wealth in the whole society increased in one night. Some people just cannot earn much money in a lifetime, but because of this, they became millionaire by valuing his housing property as a personal property

which can be evaluated and sold. The release of this powerful energy was a good begin but this prospers the economy also the bubble of real estate.

2.3.2.2 Local government

In China we implement system of tax distribution. The power of Chinese local government in fund is getting the fund by its resource and using it to construct infrastructure. So in the resent years, land became the important way to get the capital in each local government. And the evaluation of the performance of local government is mainly based on the economical developmental level by the central government, generally measuring by GDP. Hence the local government, on one hand, get the financial capital and the capital of urban construction through selling or renting the land, on the other hand, from the urban development point of view, local government use the development of the real estate to activate city assets, because the degree of development of real estate is highly relevant with one of urban development.

Take an example of Cheng Kejie in Guangxi Province. When he was in his position in Guangxi government, he used power to adjust the land price in one case that relevant of the area less than 60000 square meters. In this case he gets the profit to his personal pocket through sharing the profit with the developer about half-half.54 So seeing this case, the cost of the development seems to be low, but after the participant of the local government, it was higher and this push the housing price to grow.

After 31th, August, 2004, the market-driven system of land for construction came into force in the whole country of China, that is “Plan of IFB (Invitation for Bid), -- Auction, Listing for project land”. One hand, this system itself has the function of price discovery, and it not only brought down the land price, but bought it up on the contrary, which is fully shown in the records of land auction in every large city in the second half year of 2005. The land transferring fees of china now is not the real price of the land market, so the land price in this market-driven system cannot reflect the real degree of scarcity of land and the relation between supply and demand. The other hand, these local government, as the only provider, bring the land revenue into financial revenue, use land to operate the city and to create new high GDP, these element were also the motive of high land price.

The not sound “Plan of IFB (Invitation For Bid), Auction, Listing for project land” system also creates the opportunity for some transfers to Land speculation real estate agency which just want the profit by getting the land for sale. As the research in the 2004 shows, the purchase land area of Beijing in 2003 is 37.3% higher than the year of 2002, reached almost 100,000,000 square meters. Calculating by the FAR of residential building, it could be developed commercial residential buildings of 300,000,000 to 400,000,000 square meters using this 100,000,000 square meters of land. But in the year of 2003, it was built only commercial residential buildings of 20,800,000 square meters. By this standard, 100,000,000 square meters of land equal to the ability of development of Beijing for 15 years.55 This kind of over-development of Changed hands

arbitrage of land is easy to create real estate bubble.

2.3.3 Private actors

2.3.3.1 Developer

The goal of developer is maximize the profit, to get rewarded through the investment of real estate. To different developer, the period of the goal is different. The developers which prefer long period with a view to the brand manage, social ethics, and scale of the projects are relatively large. However, the developers which prefer short period have the direct goal for money, just to get the short-term interest, more like speculation.

These speculators, according to Jack Cummings, are called the “shotgun” method of investing: Their time, energy, and financial resources are spread over a wide range of tasks. This is a system of default, that is, one arrived at because of a lack of knowledge about how to design an effective program. These investors waste resources by learning about the wrong kind of investments for their desired results, often concentrating on investment tactics, and are not productive in maximizing those desired results. This improper use of time and effort diverts the progress toward their goals and can postpone or even halt achievement of those goals.56

In the speculation of Chinese real estate, land speculation accounted for a large part of it. From the land speculation in Chinese real estate market in 1992~1993, we can see the main kinds of land speculation are the following three:

1. Pure land speculation.
   This kind of speculator generally sell the land with a very high price which they get at a very low price, transfer the possession of the land-use right with high price, or rent it with high price. These also include re-transfer of the land-use right in the Primary Market from the government and re-transfer of the land-use right in the Secondary Market from the land transaction.

2. Speculation combined land and real estate development.
   This speculator gets the land and also builds, sell the property. They get the land with a low price and after finish building the property, sell them with a high price, and get the profit. Usually they get the land is at the time when the economy is not so prosper and sell the house when prosper.

3. Speculation in transaction of real estate, it is the general way of speculation.

The main resource of the capital of real estate developer is from the domestic loans, self-raised funds and other capital. In 2004, these 3 resource of capital occupied about 98% of the total capital of developer. About half of the “other capital” means the down payment and the advance payment of purchasing. While 60%~80% of the down payment and the advance payment of purchasing comes from the housing provident fund loans and mortgage. About one third of the self-raised funds are paid by the construction side, while two third of the money paid by the construction side are form the loan of the commercial banks. So according to many specialists, the 60%~75% of the capital of the developer are from the commercial bank.  

2.3.3.2 Commercial bank

The funds of real estate project are mainly from the domestic loan, self-raised funds and other funds. In which, the 2/3 of the funds by the construction firms is from the load of commercial bank. And also the mortgage loan of real estate has become the steady source of profit and high quality capital. So we can say, the commercial bank is also the motive power to push the housing price.

No matter purchasing the house for living or for investment, consumers have to rely on the financial instrument like mortgage loan, Chinese real estate is more and more similar to western financial industry.

The real estate credit has two mainly aspects, one is the loan for the real estate developer, the other is the mortgage loan for the purchasers. Because the real estate is a capital intensive industry, to develop it require abundant funds. As the scale of real estate development is larger and larger, the self-own funds of the developers are not enough, so they must be helped by the commercial banks.

According to the book of <Real Estate Finance & Investment Manual>, there are 2 kinds of loans for the real estate development, Land development loan and Construction loan.

The land development loan is obtained by a property owner or developer for the specific purpose of development of that property. This kind of loan is unique to the development of vacant land, or redevelopment of existing properties that are first removed to create vacant land. In the process of development, this loan will be similar to the construction loan once development of the basic infrastructure has been completed and actual buildings begin to rise. While in China, in general, the there is no land development loan, the developers has to gather all of the capitals by themselves.

Construction loan is the loan to the developers to construct their project. The real estate loans in China mostly are this kind of loan.

Though Chinese government has some restraint policies in the real estate loan, but the high return of real estate loan make many commercial banks violate the regulation and grant large numbers of loans, some without even testing and verifying the Credit Classification. So many developers develop the project with very little funds, this result in over-development.

At the meantime, the housing financing system, that is mortgage real estate credit, under the support of the central government, developed rapidly after 1998. This gave many families the choice of purchasing the house with the “future income”, which increase the purchasing power of the residents. Though this is the international general way but we cannot deny the financial risk, and the possibility to create the real estate bubble.

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Under this policy, when the housing price is up, the asset prices of the possessor is increase, he will pledge the house to the bank and get the loan, after he purchase other house and this forms a circulation, cause the mechanism of self-inflated bubble.

2.3.3.3 Purchaser

The housing purchasers in China real estate market can be divided into 3 groups: one is purchaser for consumption---- self-living, one is purchaser for investment, while possessing it, rent it for money, while the price is rise, sell it, the last one is speculator, take fluctuation of housing price as operation means, hoping getting high interest in manipulation of short time.

The first group hope the lower the housing price the better, at the same time expect after the price has the potential to rise. So the first kind is for squeezing the real estate bubble.

The second group does not like the risk, but prefer the possibility of the house of getting interest for long term.

The third group likes risk, always follows after the risk, getting sudden huge profits through short-term manipulation. They likes blowing the bubble most, but once they reach an appropriate position, they will squeeze the bubble and let the housing price escalated rapidly. The over-speculation behavior is one of the main reasons of real estate bubble in China. Speculation is usually non rational, A high-risk, and getting the profit in the big price different. When the price of house is continuously rising, many consumers choose the real estate investment because they want to make a profit from that, but many of the investment become speculation in the end. Especially when the expectation of real estate is optimistic, speculators begin to add their capital in the real estate, like hoard for speculation, hoping the price will increase largely. These speculations cause the false appearance of a flourishing market, and result in the expectation of price rising. Thus the price is more and more far away from its real value, and bubble forms.

Sometimes investors can become speculators. Like the “House Property Speculators Clique from Wenzhou” in the last few years, they begin from house purchasing for investment in Shanghai and Hangzhou, got the sudden huge interest when the price rises, after they move and change the site with the fund, and did the same speculation, and move...
According to a survey, in 2006, the purchasing of the commodity house for investment of Beijing occupied about 17%, in which, 29% of them wished to be transferred in a short time, 23% of them for rent, and 48% of them are stayed for sale after price rising.\(^{59}\)

In the first quarter of 2006, 43% of the house in Shanghai which the price is more than 10,000 yuan is purchased by non-Shanghainess. In which 72% of them are purchased by Wenzhouness, and almost 70% of the investment capital were from the bank.\(^{60}\)

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59 <China statistical year book>
60 <Shanghai real estate year book>
3. China's urbanization

Urbanization is a complex process of population to cities and urban expansion, in this part we would discuss from economic, demographic and spatial urbanization to understand the process of urbanization in China.

3.1 China's economic development from 1978 to 2011

3.1.1 Economic trends

In the history of China's economic development since the founding of new Republic of China, there is a obvious division of two stages. From 1949 to 1978, China implemented a planned economy, economic development was rather slow, the following highlights China's economic development after the reform and opening-up policy in 1978.

GDP
Since the reform and opening-up policy in 1978, China's rapid economic development has made remarkable achievements. China’s GDP has got from 268.3 billion U.S. dollars in 1978, soared to $ 5.879 trillion in 2010. In 2010, China's GDP has overtaken Japan to become the world’s second largest economy.

![GDP growth rate](image)

Figure 3.1 GDP growth rate

61 From 1978 to 2011, the GDP growth rate is maintained at an average of 10 percent or more. It has completed three periodic motion (Figure 1), years 1978, 1984, 1992 and 2007 are Cycle peaks, GDP growth was 11.7%, 15.2%, 14.2% and 14.2%; cycle trough are years 1981, 1990, 1999 and 2009 GDP growth rate of 5.2%, 3.8%, 7.6% and 9.2% respectively. The average length of the cycle is 9-10 years. In the recent round of economic cycle, the peak year is 2007, 2008 and 2009 is

62 Source: World data bank
62 Source: World data bank
the systolic in the economic cycle, 2011 dropped to 9.2%, some scholars have put forward that after 2011 China’s economic growth rate will bid farewell to the double-digit growth.

![Figure 3.2: 1978-2011 GDP growth in China](image)

figure 3.2 1978-2011 GDP growth in China

![Figure 3.3: GDP per capital](image)

figure 3.3 GDP per capital

since 1978 until now, China’s per capita GDP growth rate is far more than the world average growth rate. China’s per capita GDP of 4,428 U.S. dollars in 2010, after deducting price factors, there is an increase of 13.7 times compared to 1978, the average annual real growth is 8.8%.

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63 Source: National Bureau of Statistics  
64 Source: World data bank  
65 Source: World data bank
In 1978, countries that GDP per capita is lower than China only takes 0.5% of the total world population, while Higher than China’s national population in the world’s total population accounted for up to 73.5%. The data shows that China accounted for 25.9% of the total world population. As of 2010, using the same comparison method, the total population living in countries where GDP per capita higher than in China accounted for only 31.3%.

3.1.2 Evolution of macro-economic policies

In 1978, China implemented a single system of planned-economy, and the government relied mainly on administrative and planning tool. Finance, credit means is an important tool for government regulation of the economy, but no real fiscal and monetary policies. Macroeconomic management in China is roughly from after 1978, since the reform and opening up, China’s macroeconomic policy adjustments experienced a total of eight macro-control practices, 7 of them is anti-inflationary tightening regulation, one is anti-deflation expansionary regulation. In chronological order, include the following periods:

(1) Macro-control in 1979-1981 years: stopping "swarmed"

In 1978, China began reform and opening up policy, the whole society burst out of the great enthusiasm, various parts swarmed and macroeconomic was overheating. Outstanding problem of the macroeconomic performance was: the rapid growth of macroeconomic performance, the surge in the scale of investment, the fiscal spending increase leads to more serious deficits, blind expansion of imports lead to trade deficit, foreign exchange

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reserves close to zero. *Prices rose significantly in 1979, 1980. In 1980 inflation reached 6%*\(^{67}\), this is the first round of economic overheating.

Politburo meeting in 1979 decided to spend three years to adjust the national economy, implemented principle that "adjustment, reform, rectification and improve." However, in years 1979, 1980, the total scale of infrastructure are not down, local and enterprise property blindly begin more project after rights expand, there are large deficits in finance, the currency are too much. Therefore, further adjustments to the national economy were implemented in 1981. At this point, since the reform and opening up macro-control can firstly be effectively implemented. The main control measures were: to emancipate the mind, get to overall balance; pay attention to the correct handling of the ratio between accumulation and consumption; shorten the infrastructure front, strictly control the number of new projects; to strengthen price management and resolutely put a stop to price hikes; expand enterprise autonomy power to allow enterprises to do more things.

(2) Macro-control in 1985-1986: inhibition of the rapid expansion of credit, consumer and high inflation

The situation of macroeconomic in 1984-1985: With the success of rural reform and reformation advanced to the city, along with the scale of the project, the demand for social consumption, the rapid expansion of money supply and credits, macroeconomic came to the situation of overheating. At that time, the banks compete to loan, the infrastructure has expanded rapidly, the currency was out of control, salaries and bonuses excessively grow, social consumption demand expanded. *In 1984, the GDP growth rate reached 15.2%, the highest since the founding of the state, when the rate of inflation up to 9.3%.*\(^{68}\) During this period, the People’s Bank has begun to exercise the functions of the central bank to control credit. However, in the year 1985, the overheating of the economy situation is not well controlled. Therefore, in March 1986 the "Seventh Plan" was implemented, adjustment in the first two years focus on solving the problem of large investment in fixed assets, excessive increase consumption funds. However, after the first quarter of 1986, industrial production growth rate went down, many people thought that economic growth slows, and strongly demanded leasing monetary policy to stimulate economic growth. Under various pressures, originally planned three-year period to adjust the program is not able to continue. The macro-control process carried out in the year of 1986, still lurks the possibility of further lead to a new overheated economic expansion again, and the risk of overheating and inflation were not fundamentally eliminate.

(3) Macro-control in 1989-1990: rectification to achieve economic "hard landing"

From 1979 to 1988, China's economy had been through nearly 10 years of rapid growth, but also more and more accumulation of uncoordinated, unbalanced factors in economic growth. In 1988 *investment rate is 37.4%, economy was overheating, the economic growth rate was 11.3%, imports was increased, foreign trade deficit was $ 7.75 billion*\(^{69}\); since the reform and opening up

\(^{67}\) http://www.chinairr.org/
\(^{68}\) Data are all from China Statistical Yearbook
\(^{69}\) Data are all from China Statistical Yearbook
a third price peak appeared in the years 1989-1990.

In this case, the central authorities made the decision "governance economic environment, rectifying the economic order," resolutely carried out macro-control, compressed of demand, control price. Control measures are focused on the following aspects: First, to strengthen the regulation on prices. The second is to strengthen the credit control, and to raise bank savings interest rates. In addition, the Government has also promulgated control measures that compressing social group purchasing power, compressing scale of the project, and straightened out all kinds of companies, developing of national industrial policy. As there was a wide range of out of control of economy this time, and thus the pace of regulation was more urgent, the measures taken and the intensity is relatively large. There has been taken a strong macro-control policy to inhabit the aggregate demand - insist on the implementation of the tightening credit policy and tighter fiscal policy, which rapidly inhibits the growth and inflation, only after less than a year, the economy will regain the basic balance, the economic realized "hard landing". The effect of macro-control measures, although very obvious, but there are certain deficiencies: the macro-control is not timely and moderate, hands-on control was relatively late, the intensity is too large.

(4) Macro-control in 1993-1997: inhibiting investment and inflation, got economic "soft landing"
After Deng Xiaoping’s southern tour speech in February 1992, the economy began to rapidly rising up, GDP growth rate has get to 14.2% in 1992, the CPI increased to 6.4 % from 3.4% in the previous year, fixed-asset investment rose 44.4%, and the actual utilization of foreign investment growth was 62.7%. In 1993, there have been thousands of development zones, investment in fixed assets rose by nearly 1 time. The inflation rate reached 13.2% and 21.7% in 1993 and 1994\(^{70}\), becoming the fourth price peak.

This time regulation mainly focused on use of credit, tax and economic approach, although the focus was on control infrastructure investment, strictly control the size of bank credit and the introduction of the high investment orientation regulation tax, in order to achieve the dual purpose that compress the scale of construction, and also enhance the effect of construction. During this period, fiscal and monetary policies implemented with the "double tight" , from the aspect of fiscal policy, combined with the tax system reform, from the aspect of monetary policy to strictly control the size of credit, substantially increased in the deposit and lending rates.

After nearly three years of effort, finally in 1996 the realization of economic "soft landing" was succeeded, the economy is basically restoring the balance and the economic growth rate has not declined substantially, the rate of economic growth dropped to 9.6%, the inflation rate dropped to 6.1 %\(^{71}\). Further consolidate the results of "soft landing" in 1997, achieved a "high growth, low inflation".


\(^{70}\) Data are all from China Statistical Yearbook
\(^{71}\) Data are all from China Statistical Yearbook
Southeast Asian financial crisis broke out in 1997, since 1998, due to the impact of financial crisis, coupled with domestic supply and demand relations gradually shift from a seller's market to a buyer's market, deflation and the problem of insufficient effective demand became the principal contradiction in economic development. In 1998 for the first time CPI went to negative, to -0.8%, which was for the first time since the reform and opening up China experienced deflation.

Thus the macro-control policy turned from "tight", "seek progress" to proactive fiscal policy "expanding domestic demand" and prudent monetary policy. In 1998 implement of the proactive fiscal policy was proposed, such as the issue of long-term construction treasury bonds, stimulation of domestic demand. From 1998 to 2003, a total of 910 billion treasury bonds yuan was issued for construction. January 1, 1998, the central bank canceled the commercial bank's lending limit control, turned the statutory deposit reserve ratio in March 1998 from 13% to 8% again in 1999 down to 6%72. Three times from 1998 to 1999 to expand the floating range of lending rates; lowered deposit and lending rates five times between 1998 and 2002; levy of interest tax in September 1999, consumer policy change to limit consumption to encourage consumption. 2002, the central government explicitly proposed to promote sustained, rapid and healthy economic development ".

During this period, in 2001 China joined WTO, China's economy was more integrated into the tide of economic globalization. In 2003, along with the world economy, especially the full recovery of the U.S. economy, under the combined action of multiple factors such as the consumption upgrade, acceleration of the factory of the world, the urbanization process, change of government, China's economy full-blown, went out of deflation, entered a new round growth cycle.

(6) Macro-control in 2004-2007: maintain the balance of macroeconomic aggregates

In 2003, 2004, rapid economic growth reached of 10% and 10.1% respectively. Along with the rapid economic growth, there has been fast growth of credit scale, large scale of investment in fixed assets, the increasingly tense signs of economic overheating in the upstream raw material prices rise, coal, electricity and other resource bottlenecks; at the same time, due to the constant expectation of RMB appreciation warming, a large sum of international hot money flows in, inflationary pressure is gradually increased, boosted the real estate bubble.

As part of the urban real estate prices rose over fast and real estate bubble grew more, in 2005 during the two sessions, "Government Work Report" clearly mentioned that the main focus of macro-control is to control real estate prices rose too fast. In March 2005 the People's Bank announced the restructuring of commercial bank credit for housing policy and the abolition of the preferential interest rate of housing loans, improve the ratio of mortgage loan down payment. In July 2005, the People's Bank of China raised the U.S. dollar against the RMB trading price of $1 dollar to 8.11 yuan, and introduced a series of related policies and measures focus on reform and improve the RMB exchange rate formation mechanism. Since then, the expected appreciation of the RMB become a hot issue in market, hot money inflows accelerated increase. 2007, monetary

72 Data are all from China Statistical Yearbook
policy, make comprehensive use of exchange rates, interest rates and deposit reserve ratio, open market operations, directional instruments and other means, to strengthen policy co-ordination of local and foreign currency and banking system liquidity management.

A very important feature of macro-control policies this time is monetary policy, especially open market operations have taken place more and more frequently, and intervention of state in the economy was getting stronger. The national economy is severely isomorphic, Problems existed in economic operation such as the large scale of investment in fixed assets, coal, fire and oil tense situation had not effectively alleviate.

(7) Macro-control in 2008: from "double defense" to "one guarantee one control", from "stable" to "positive" and "tight" to "moderately loose"

The summer of 2007, subprime mortgage crisis erupted in the U.S., caused some adverse effects on the Chinese economy. At the same time in 2007 China's domestic investment in fixed assets year-on-year grew by 24.8%, import and export volume increased by 23.5%, pressure of rising prices was heavy, the annual increase got to 4.8%\(^73\). The domestic face the dual problems of inflation and growth. Central Economic Work Conference in December 2007 identified a principle of "control total, stable prices, adjusting structure, promoting balance". On the Eleventh National People's Congress meeting in March 2008, an overall arrangements was made for the 2008 China's economic development: on macroeconomic policies, the focus is "to prevent economic growth from becoming overheated and to prevent structural price increases from evolving into significant inflation "(" double defense "); continue to implement prudent fiscal policy, monetary policy from" prudent "into " tight ". This is the first time in 10 years mentioned the "tight" monetary policy, until then, 10 years of "prudent" monetary policy coming to an end. In October 2008, the central shifted the focus of macro control to preventing economic growth from slowing down too quickly, "active" fiscal policy from "prudent" monetary policy, from "tight" to "moderately loose" implement a proactive fiscal policy and moderately loose monetary policy, to take a series of further expanding domestic demand and promote stable and rapid economic development of major initiatives. Most domestic and international concern is the "4 trillion yuan economic stimulus plan".\(^74\) Time round decisively stop an affect from financial crisis brought to China, but in the case of the spread of the 2008 crisis, the tight policy is still overweight, and finally the domestic and international factors superposition of China's capital markets and real economy got a large impact. Moreover, in the case of no improvement of the economic structure, the introduction of the “4 trillion economic stimulus plan” further alienated the economic structure, increased the difficulty of improvement later.

(8) Macro-control in 2009-2011: maintain growth, expand domestic demand, and adjust structure

2009 is the most difficult year for China's economic development since the beginning of the new century. The financial crisis still continue to spread, the United States can only continuously printed on the dollar, there is no employment growth, also it was unstable. European debt crisis

\(^73\) Data are all from China Statistical Yearbook
\(^74\) The 2008–2009 Chinese economic stimulus plan, is a RMB¥ 4 trillion (US$ 586 billion) stimulus package announced by the Central People's Government of the People's Republic of China on 9 November 2008 as an attempt to minimize the impact of the global financial crisis on the world's second largest economy.
got continuously fermentation, the liabilities of the traditional high welfare model of development has come to an end. As a result, domestic exports continue to impact on low-profit environment. Four trillion under the no-change of economic structure, accumulated in traditional high energy consumption and low output industries as real estate, automotive and other industries. Education, health care and other reforms which are slow effected, but with the strategic role became more and more constraints to the development of the economy. There is no breakthrough results in new technologies, new energy, new materials overall. House prices continue soaring, brought out economic and social issues. The downward pressure on economic growth is still significantly increased. However, the US-Japan quantitative easing monetary policy with domestic stimulus policies led to the upward pressure on prices. Domestic policies faced the reality of pressure to maintain growth and anti-inflation. From 2009 to 2010, maintain growth turns to "promote change" China's macro-economic policy is constantly adjusted. Investment growth reached historic high point due to the particularity of the economic situation in 2009, task in 2010 changed into "steady development", increasing support to the employment, strategic emerging industries, industrial transfer and other aspects. "Adjusting structure, promoting consumption" are the two main themes of the Chinese economy. From 2010 to 2011 policy adjustments for real estate investments continuously become strictly. The real estate market experienced a rate hike, the financial pressure of the reserve, the purchase limit administrative intervention. In particular, in the protection under the supply of land, financial support, and administrative safeguards, vigorously promotion of the protection of housing construction are operated.

3.1.3 Status and Problems

Although from the point of view of GDP, China’s economy has obtained good results after the reform and opening, bere are phenomenon of the structural imbalance. Wang Xiaolu, deputy director of the China Reform Foundation, National Economic Research Institute, analyzed in the Forum at Fudan University School of Management 2012 that our economy has formed the pattern of growth that over-reliance on investment and exports, and such a mode of economic growth can be not long sustained, he mentioned that there are three main underlying reasons.

(1) There is long -term imbalance growth between Government revenue and residential income
The following figure is calculated on the basis of data of different caliber of government revenue-GDP ratio, the curve at bottom is the proportion of government budget revenue. The above is coupled with the extra-budgetary revenues of the government, land transfer income and social security income. Added with these revenues, the government revenue-GDP ratio is greatly improved. And the three curves show the same trend, from 1978 to the mid-1990s, government revenue in GDP continued to decline, after the operation of the tax system in 1994, government revenue has continued to rise. Government revenue has accounted for at least 1/3 of GDP.
Problems go with rapid growth in government revenue at the same time is the government expenditure structure needs to be improved. First, a lot of corruption led to the loss and unreasonable allocation of public funds. Second, consumption of the government always is high, administrative costs continue to rise. All levels of government over-keen on investing, but there is lack of supervision, resulting in a large number of invalid image and vanity projects.

(2) Misallocation of resources and monopoly income of the enterprise
The following figure reflects the upward trend of proportion between disposable income and GDP in corporate and financial sector. The rising part of it can be said mainly from the resource revenue and monopoly income. Such as petroleum, coal, financial sector, income, and so, the income of these areas is rising much faster than corporation in competitive field.

Because of government revenues and corporate income, especially corporate monopolies income rise very quickly, there is a phenomenon that people's income percentage of GDP continued to decline. The following diagram using the data of different caliber to calculate residents' disposable income share of GDP, and labor compensation share of GDP, we can see these curves show a downward trend since the 1990s.

(3) The third prominent problem is the internal income gap among residents is widening. We can see from the following figure since 1978, after a brief period of shrink of the income gap, from the mid-1980s, the Gini coefficient has been an upward trend, in accordance with the calculation of the World Bank a few years ago it has already reached 0.47.

3.2 Urbanization of population

In accordance with commonly used measure standard of urbanization: urban population proportion, urbanization in China has gone through three stages: before 1949, China is still in the prehistoric stage of urbanization, in 1949, the proportion of China's urban population has just reached 10.6%, nearly 90% China's population live in rural areas; from 1949 to 1979, China is in the take-off phase of the urbanization, China's urban population by 1979 the proportion is only 19.2%, 80% of the population lives in rural areas. Since 1980, China entered the rapid urbanization stage of development until now, which has got into the higher stage. From 1979 to 1991, the urbanization rate increased from 19.2% to 28.2%; from 1991 to 2002, spent 11 years rising to 37.6%. In 2010, the urban population has risen to 46.8%. From the year 1997, China’s urban population ratio get an annual increase of one percentage point rate rise in the urbanization of China’s population which has got into the rising segment of the S-shaped curve.

figure 3.7 1978-2011 urban population in China

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75 Data from World Bank
In accordance with commonly used measure standard of urbanization: urban population proportion, since the reform and opening up China's urbanization rate is in a rising trend, and has gone through three stages:

A. Phase of rural reform promotion (1978-1984)

China's reform and opening-up started from the rural areas. Incentive system that formed by agricultural household contract responsibility system, stimulate farmers' enthusiasm for production, agricultural production potential saved in the past few decades is able to break. Compared with 1978, the country's total grain output in 1984 increased by 33.6 percent, the total production of oilseeds, cotton, pork, beef and mutton increased by 1.3 times, 1.8 times and 0.8 times. The whole nation changes the situation of shortage of supply of agricultural products, providing the basic material premise for urbanization. Household contract responsibility system improve the efficiency of labor, the supply of the rural labor force get over plus, farmers partly get rid of system, structures and land, provides the possibility of rise of the prosperity of the township enterprises and small towns. In 1984 National Rural non-farm employment labor is up to 5670 million, which is 2 521 million more than in 1978, the proportion of total rural labor force rose from 10.3% to 15.8%. Correspondingly, the output value of non-agricultural industries in rural areas take the proportion of total rural output value rose from 30.4% to 36.5%. Opening up of urban and rural markets in this period and rapid rise of township enterprises promote the development of small towns, farmers began to enter small towns, transient population in towns comes up. At the same time, urbanization in China end wandering and even decline of the tide in many years, the urbanization rate increased from 17.92% in 1978 to 23.01% in 1984, an average increase of 0.85 percentage points, which is four times than before the reform and opening up. More than 20 million went to the countryside of young intellectuals and cadres and their families come back to the city, the recovery of college entrance exam and the rapid development of a number of rural students enter the city, rapid increase take place in urban population. However, due to the turmoil of the "cultural revolution", plenty of difficulties are in the city economic, the urban household registration of the subsidiary, including the supply of food and other necessities, housing supply, medical, pension, education, employment and other benefits overlapped with a rapid increase of urban population, causing urban employment pressures and government finances overwhelmed. In order to repay the outstanding loans of the history of urban construction, the country improve the urban maintenance and construction costs, ending years of stagnation situation of urban construction, and start a new round of urban modernization.

B. Phase of urban reform promotion (1985-1992)

Basic background of this stage of urbanization is that urban economic reform improved the production and operations, relax the limit of population migration and the town set, the labor-intensive industries and township enterprises rapidly improve to absorb a large number of rural surplus labor, stimulating the process of urbanization.

76 Data are all from China Statistical Yearbook
By the 12th CPC National Third Plenary Session of "the CPC Central Committee decision on economic reform "as a symbol, China entered the stage to focus on urban economic reform. Reform focus began to shift from rural areas to cities, have issued a series of policy measures aimed at expanding the financial autonomy of local governments, expand the autonomy of business, and implement various forms of production and management responsibility. The economic structure has been through a lot of adjustment, labor-intensive light industry and tertiary industry have developed rapidly. Urban economic vitality get stronger, urban functions increase, no longer confined to the production functions and political functions. Pace of urban construction began to accelerate, improve the ability of cities and towns to absorb population. At the same time, the rural areas operated the second step of reform, adjusted the industrial structure in rural areas, developing commodity economy, promoting the further development of township enterprises. The development of township enterprises form a certain scale of aggregation, attract a large number of rural surplus labor which create conditions for the development of small towns. This stage of urbanization impetus came mainly from the labor-intensive industries and the rapid development of township enterprises driven on urban development. According to statistics, from 1984 to 1992, the second and third country-industry employment increased by 17,329 million to 27,205 million, an average annual increase of 1235 million. Township enterprise employees increased from 5208 million to 10581 million, an average annual increase of 6.72 million people. Development of township enterprises stimulates a bottom-up process of urbanization, development of small towns get support by the central affirmation. In October 1984, the State Council issued a "notice on the farmers' access and settle to the town", which give the provisions that farmers who have the operating capacity or long-term workers in township enterprises, shall be permitted to drop the permanent residence to protect the peasants take economic activities in the cities and towns. Farmers' access to the town to work or do business, make cities and towns become important source of growth in the Chinese urban population in the late 1980s. In the same year, to meet the needs of new forms, the State Council approved the "Report on adjustment built towns standards ", proposed that "relax the standard of construction of towns, implement the Town- village system", in 1986 the State Council reduce standards of establish a city. Pace of establishing city, township accelerated, and numbers of cities and towns rapidly grow. In 1992, the number of cities got to 517, and towns even soared to 14,500.

In this stage of the process urbanization progressing smoothly, development of the labor-intensive industries and township enterprises improve, small-town household registration system get loose, the town set get relax, there was a substantial increase in urban population, especially the urban population, urbanization steadily improved. In 1992, the urban population accounted for 27.46 percent, 4.45 percentage points more than 1984, an average annual increase of 0.56 percentage points.

C Phase of accelerating urbanization stage (1992 to now):
The basic background of this phase of urbanization is that in the process of the initial establishment of socialist market economic system and gradually improvement, economic development activity and potential further released, the role of market mechanism, all kinds of

77 Data from China Statistical Yearbook
cities and towns were fast expanding, urban construction fully swing, city function are more complete, urbanization process accelerate.

China has entered a period of building a socialist market economic system since in the spring of Deng Xiaoping's Southern Talk and the Communist Party of China in October, 1992. As the socialist market economic system gradually establish and improve, China’s economy maintained a high growth rate, get into the history of the best period of development. Jointly promoted by the economic development and market-oriented, the process of urbanization also entered the stage of comprehensive development. Market mechanism of the dynamic effect of the urbanization process gradually play around, more and more use of market-based instruments to promote urban development. The town as a regional economic and social development center, its status and role get unprecedented importance, the state has issued a series of guidance documents aimed at promoting the development of urbanization. 1998 CPC adopted at the Third Plenary Session of the Fifteenth CPC Central Committee "decision on the number of major issues in agriculture and rural work, clearly stated "small towns, grand strategy", first give the construction of small towns an important strategic position. In 2000 issued "a notice of the CPC Central Committee and State Council on promoting the healthy development of small towns", developed and improved the specific policy measures to promote the healthy development of small towns. In the national economic and social development "the Tenth Five-Year Plan" in 2001, the first time that the development of the country's urbanization strategy is considered as one of the strategies, proposed to seize the opportunity to implement the strategy of urbanization. Later, a series of principles and policies of advancing urbanization documents were proposed, taking urbanization as an important way to solve the "three rural" issues. The 16th CPC National Congress puts forward "flourish rural economy and speed up the process of urbanization", established the "adhere to the coordinated development of medium and small cities and small towns, insist the road of urbanization with Chinese characteristics" approach. In the economic and social development "11th Five-Year plan" in 2006, the State has further emphasized the strategic thinking "to promote the healthy development of urbanization ", that" adhere to the coordinated development of medium and small cities and small towns, improve urban carrying capacity. In accordance with the principle of gradual, land conservation, intensive development, and rational distribution, actively and steadily promote urbanization and gradually change the urban-rural dual structure ".

In this stage, process of urbanization is comprehensive, accelerating, the rise around the Development Zone and the Metro construction is characterized by the wave of urbanization, urban construction and population movements more active than ever, all regions, cities and towns of all sizes have been rapidly expanding , the number of municipalities increase further. In the mid-1990s, China has entered a stage of the mid-urbanization of accelerated development. By the end of 2007, number of cities has been to 655, towns have been of 19200. From 1992 to 2007, the number of urban population increased by 32,175 to 59,379, the level of urbanization increased from 27.46% to 44.94%, an average annual increase of 1.17 percentage points.

Data from China Statistical Yearbook
the urban population lives in mega-cities as Beijing, Shanghai, then until 1990, the rate dropped significantly to 2. 51%. Since 1991, the downward trend began to reverse in 2001, up to 2. 93%, in 2009, this ratio decreased slightly to 2. 79%. In 1961, 49.1% of the urban population lives in major cities in more than one million which went in 1978 down to 40%. Since then, under the premise of the last century 80's urbanization rate rising rapidly, the large urban population accounts for the urban population ratio dropped to 31% in 1991, this ratio began to reverse in 1992, to 40%79. This structure in 2004 changes on the one hand indirectly indicates that the major achievements of China's population urbanization is not in mega-cities, on the other hand, it shows that China's population urbanization has gone through different stages before and after the mid-1990s: the increase in urban population before 1990s occurred mainly in small and medium-sized city, and in big cities after 1990s.

Unique urban and rural household registration system

To understand China's population, urbanization status, we need to mention some particularities of regulation in China. To measure the level of urbanization one of the most common indicator is the proportion of urban population in whole of the world, known as the urbanization rate. But we cannot simply evaluate the process and level of China's urbanization by this indicator. First of all, China's urban population as defined is very inconsistent with many countries because China has a unique urban and rural household registration system of agricultural accounts and non-farm accounts to distinguish between urban and rural population, this practice have not yet been completely changed and, therefore, affect people's views on the current proportion of urban population and urbanization. There are different demographic methods of urban now: urban household population; urban resident population; urban population. Nowadays, the National Bureau of Statistics has been using the city's proportion of the resident population as the urbanization rate indicators, and urban resident population refers to all kinds of population in the city living for more than half a year. However, if we look at the data behind these great urban data, until 1990, according to the results of previous censuses, the population migration in China is very rare, population which is not in the domicile only account for the proportion of the country's population less than 3 %. The phenomenon of the so-called "Peasant Worker Tide" has not yet appeared. The next 10 years, China has taken the world's industrial division of labor occupation of the basic manufacturing sector, the eastern cities rapidly rise, there began a large-scale migration to the eastern city. In 2000, Chinese urban resident population is 459 million, but the urban household population took 290 million, nearly 170 million people live in cities, but without household, this part of the "pseudo-resident" share of the urban population ratio up to 37%. Chinese urban resident population reached 670 million in 2010, while urban household population only rose to only 456 million. 214 million people live in cities, but only urban residence. After 10 years of digestion, the pseudo-public rate of the Chinese cities is still as high as 32%80. In 10 years pseudo-public rate only dropped by 5 percentage points. As so far in China's cities, in every three people there is a pseudo-citizen, while he works for the city, he cannot enjoy any benefits of the city reversely.

79 Data from China Statistical Yearbook
80 Data from China Statistical Yearbook
3.3 Spatial urbanization

From a spatial perspective, the development of urbanization in China is shown by the growth of the number of cities and urban area expansion. The increase in the number of cities in China is the adjustment achieved by merging townships to town or by the withdrawal of the administrative divisions of the county to a city. In 1979 there are 2137 county-level Administrative Region, 109 county-level cities, 209 prefecture-level Administrative Region, 104 prefecture-level Cities. And now there are 368 county-level cities and 283 prefecture-level cities and 856 municipal districts, but only 1635 the county-level Administrative Region (SAR), 50 prefecture-level Administrative Region.

Changes of the number of cities mainly took place between 1979 and 1994. The number of cities changed from 193 to 622, the number of prefecture-level cities increased from 104 to 206, more than doubled. County-level cities rise from 109 to 413, increased by nearly four times; the number of the town increased from 2361 to 16,702\(^81\), it is an increase of nearly six times. After 1994 the number of cities is a relatively stable state. These changes show that the space of urbanization in China has also experienced two phases: before the mid-1990s, the space of urbanization in China focused on the development of small and medium towns, it shows increase in the number of cities and towns, but then entered the stage to focus on the expansion of the central city, mainly built-up areas and the expansion of the urban area for the cities above prefecture-level.

In the end of 1990, built area of cities across the whole country are 12,856 km\(^2\), until the end of 2000 the number reached 22,439 km\(^2\), expanded 9583 km\(^2\) in 10 years, is 1.75 times than the area in 1990. Until the end of 2006, built area expanded to 33,660 km\(^2\) which expanded 20,804 km\(^2\), is 2.6 times that of 1990, more than doubled, expanded 11,221 km\(^2\) than the year 2000, equivalent to the area of the country built in 1990. At the same time, there is a substantial increase in road length in city, urban roads raise from 95,000 kilometers in 1990 to 160,000 km in 2000 and to 240,000 km in 2006, a net increase of 1.5 times, more than doubled. From 2000 to 2006, just six years, a net increase of 80,000 kilometers, close to the total number of cities across the country road in 1990. Of course, the rapid improvement of the infrastructure is based on a lot of investment, the national urban investment in fixed assets in 1995 is 5.62124 trillion yuan, reached 9.16417 trillion yuan in 2000, fast nearly doubled, in 2006 the number expanded to 29.96821 trillion yuan, more than 2.27 times of 2000, compared to 1995 increased by 4.3 times, more than quadrupled\(^82\).

In China, not only individual cities have been tremendous changes, but among cities there has been the formation of closer social, economic and cultural contacts and exchanges, ten groups of cities has begun to take shape: Yangtze River Delta urban agglomeration, Shanghai as the leading, covering10 cities such as Nanjing and Hangzhou. Guangzhou and Shenzhen as leading cities, there is the Pearl River Delta urban agglomeration. Xiamen and Fuzhou are Lords of the west part of urban agglomeration. The center of Jiaodong urban agglomeration is Qingdao and Jinan. Zhengzhou is the leading Cities in Central China. For the South urban agglomerations, Wuhan,

\(^{81}\) Ministry of Housing and Urban-Rural Development, P.R.CHINA, 2007

\(^{82}\) Ministry of Housing and Urban-Rural Development, P.R.CHINA, 2007
Changsha and Nanchang are as the centre. For Sichuan urban agglomeration, Chongqing, Chengdu is as the core, the northwestern urban agglomeration which Xi’an as the leading group.

In summary, from the two perspectives of population and space to observe the development of urbanization in China, we can get two important conclusions: the achievements of Chinese space urbanization are much larger than the population urbanization achievement. From both these two perspectives we can see that China’s urbanization has gone through two distinct phases bounded by the mid-1990s, the first stage mainly focused on development of small towns, the second stage mainly on the development of the central city.

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83 Picture form web: http://zdk505.blog.163.com/blog/static/5546236520087267538614/
84 Data sources: China Statistical Yearbook 2007
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4. Real estate policy and its historical evolution

4.1 before 1978

4.1.1 The housing system before the reform

The year of 1978, was the year of Reform and Open in China. From that on, the economy began to transform from planned economy to market economy. Before 1978, there was not the word “real estate” in China, the housing problem of residents were solved mainly through “waiting, relying, and asking”, which is welfare-oriented public housing distribution system. “Waiting for house built by government, relying on the allocation of organization, asking the unit for the house” is the character of this distribution system. This system is a particular system in planned economy of the People's Republic of China. In market economy, housing is with value, is a thing people can buy and transfer with money. But in planned economy, all the surplus value of people is belong to the Country, the government. The government gives part of the surplus value to the enterprise and public institution for building houses, and assign to staff and workers according to their level, working age, age, number of family, family hierarchy, having house already or not... the rent residents pay is far lower than the cost of building and maintenance, so the housing distribution system was actually a kind of welfare. Since the rent government collect is extremely limited, the state, every year, had to take out large amount of fund for the maintenance and management of the houses.

The house at that time was called “public house”, since it is distributed by the government. I will introduce the concept “leasehold”. Leasehold is the ownership of a right to use a specific property for a term of years for which the lessee pays rent. The tenant has a leasehold interest in the property or space. Real estate consists of various rights that are divisible; any of those rights can be leased, sold, exchanged, optioned, or gifted to other party or entity. According to Jack Cummings, Chinese people just had leasehold.

*In 1978, 74.8% of the houses in city are public house.* This kind of house has the fixed area, standards, and rents. It cannot be sold or transfer, lending to others is also limited. Married couple is firstly considered while distributing, than according to the level, wording age to decide how long you will wait and how big will be the house. But people would not worry about not having house to live, and it was just the matter of time and area.

Regularly, the rent is fixed by the government, but according to different enterprises and public institutions, the situation is usually different. Some powerful institutions or institutions with a good income would occupy many resources using their power, like land, fund, and property right. However, other normal or weak institutions would be hard to get the houses. Thus we could see the phenomena that some institution did not

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86 Chen Jie, “The 60 years of Chinese housing business”
charge the rent and some just charge a little.

In 1951, the government made rent 7.48% of the total worker’s income, 4.2% in 1955.\(^8\) To the year 1975, it was 2.3% of the family total expenditure, 1.92% in 1978.\(^8\)

Statistic data shows that, about 30 years before the Third Plenary Session of the Eleventh Central Committee which has the meaning of beginning of Reform, the grand total investment in housing was just 374,000,000,000 yuan, the investment of housing per capital per year was less than 10 yuan. To the year 1978, per capital living areas of residents in town was even reduced by 0.9 square meter comparing to the situation in 1949.\(^8\)

The data also shows that from 1950 to 1978, the total housing investment of city and country was 362,500,000,000 yuan, the housing investment per year was 131,000,000 yuan, only occupied 7.5% of investment in capital construction of the same period, 0.7% of GDP of the same period.\(^9\) As a comparison, the housing investment in other countries general occupied 20%~30% of the total investment, 3%~8% GDP.\(^1\)

Half of the residents in town of China were lack of house to live. In the concept of traditional Chinese economy, production is more important than consumption. The need for house of the normal staff and workers was considered secondary and could be ignored. So many the funds that should be used for building houses were used for the industry.

In addition, from 1949 to 1978, the population of China increased largely, from 57,650,000 in 1949 to 78,260,000 in 1953. It had a net increase of 200,000,000 people in 4 years, but new constructions are fare from enough. Per capital living areas of residents was also decreased from 4.5 square meters in 1949 to 3.6 square meters in 1978,\(^9\) which was just include the residents in town.

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87 Chen Jie, “The 60 years of Chinese housing business”
88 <China statistical year book>, 1992
89 Bu Fanzhong, <These years of our real estate>, Zhengzhou University Press
90 Chen Jie, “The 60 years of Chinese housing business”
91 World Bank, 1993
92 Chen Jie, “The 60 years of Chinese housing business”
The problem of the welfare-oriented public housing distribution system was increasingly apparent. The rent government collected is not enough for the maintenance, not to mention building new houses. The fund of building new projects is shortage. Many family was crowd in a tiny house of just dozens of square meters, because being too behind of the ranking list for the distribution. So crowd was the living experience of most of the residents in town. *Data shows, in 1978, the per capital living areas of residents in Guangzhou was 3.82 square meters, number of family which less than 2 square meters in per capital living areas was more than 20,000*\(^3\) (at that time there were just dozen thousand families living in Guangzhou). Gu Yunchang, vice-chairman of seminar of Chinese real estate described the situation at that time, “this affect the virtuous circle of houses, this kind of housing distribution system must be changed.

In September of 1978, central government held a meeting in Beijing about the housing construction nationwide. In the meeting, Gu Mu, Vice-Premier conveyed the instructions of Deng Xiaoping about solving housing problem. The instruction was generally: can we widen the thoughts while solving housing problem, like allowing building house by private person, like payment by instalment. The residents pay the money while the government gives the material. Architecture industry can accumulate the fund and increase the income for the state. In the long-term plan, we must take architecture industry as an important role.

### 4.1.2 The stagnate of building construction situation before reform

Before 1978, or we can say before the reform, the building construction situation and the urban construction in China was stagnant and less developed. Though in 1952, Chairman Mao had said that the problem of housing for the workers in big city must be solved in several years. However, after 20 years, in 1972, an American columnist James Barrett

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\(^3\) Bu Fanzhong, *These years of our real estate*, Zhengzhou University Press
Reston came to Shanghai again accompanying with President Nixon, he wrote an article to describe that everything was the same comparing to years before in Shanghai. This was the objective fact be obvious to all: the Park Hotel, the highest building in Far East, building in 1934, after occupied the highest point in Shanghai for almost half a century with 83.8 meters, 24 stories, was exceeded by Shanghai Hotel in 1982. The total amount of housing construction investment of 30 years in Shanghai-- the largest city in China at that time-- before the reform, is less than 1/6 of the investment of real estate development in 2007. From these phenomena we can say that the urban developing rate was quite slow.

4.2 From 1978 to 1991

4.2.1 Learning from foreign countries before the reform

The Chinese economy was about to transform, the governors was willing to learn some regulations and rules in developed countries in the way of housing reform, and these learning did affect a lot in the reform. Below are some events in the story of Chinese real estate in the beginning of the reform.

In November of 1978, Vice-Premier Deng Xiaoping visited Singapore, listened to the introduction of public housing system by Fan Dean, Director of Housing and Development Bureau. After, Deng also visited the normal housing district from the top of the bureau building.

On 29th, January, 1979, Vice-Premier Deng Xiaoping visited USA. He visited also a normal family when he was in Atlanta, and knew that the houses of family in America were bought. So the concept of the commercialization of housing was proposed by Deng in several occasions after he came back to China.

4.2.2 Theory support, the different trials in central and local government in the beginning of the reform

The year of 1979 is the starting point of the reform of housing system. In this year, Chinese theory field had the in-depth, intense debate about the questions of housing property, rent... <Capital Construction Survey> of Vol 18, 1979 published <the conceive about production of commercialization of housing>, raised the viewpoint of “house is also commodity” at the first time. And in <Red Flad> of January, 1980, the article <how to solve the housing problem faster?> argue that house is individual consumer’s goods and commodity using the viewpoint of Marxism, purchasing house by individual is not against socialist public ownership. The article also pointed out, the house is the important part of individual consumer’s goods, we should make it commercialized... these articles are all the theoretical basis of housing system reform.

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94 Bu Fanzhong, <These years of our real estate>, Zhengzhou University Press
On 23th, June, 1979, Gu Kangle, deputy to the National People’s Congress in 5 session, deputy director general of national Urban construction bureau, proposed several proposal to the problem of how to accelerate the speed of urban housing construction when discussing in group of the government work report. The proposals are like “change the system of regarding housing as welfare, reform of the current housing rental system. House is commodity, we should act in accordance with objective economic laws…” these proposals are published on the People’s Daily the day after.

Facing the situation of population growth and demand exceeds supply, some local government began to try new housing system after the concepts of the commercialization of housing and land property had been come up with in 1978. In 1979, Fuzhou took the lead in canceling the ban of “building house individually”. According to its circumstance, Fuzhou government proposed the proposal of combining the housing construction and urban construction, combining the construct in a systematic way and in an individual way, combining new construction and transformation to improve the living condition of residents. This proposal obtained the full affirmation and support of the central government, thus the pace of urban construction accelerated.

However, Guangzhou province decided to introduce foreign capital in Dongshan District as an experimental unit in 1979, this helped to bring about the construction of Donghu new residential district. In the beginning of March, Dongshan district founded headquarter of introduction of foreign capital for construction (after it changed its name to Donghua Industrial Corporation Limited), and it made a negotiations with Hong Kong developer for half a year. In December of 1979, Donghu new residential district began construction and became the first commodity house in China. According to the contract of this project, the area for developing was 60,000 square meters, which provided by Guangzhou government, and developer in Hong Kong provided the fund. 20,000 square meters of the project area would sold in Hong Kong, for 2500 Hong Kong dollar per square meter (at that time, 100 Hong Kong dollar equaled to 30 yuan), 20,000 square meters assigned to the households relocated due to building demolition in Dongshan district, the other 20,000 square meters were sold in Chinese market, for about 700 yuan per square meter. The cost of construction per square meter was 150 yuan at that time. The government used the profit to develop the new project.

The mode of introduction of foreign capital, design, and management of Donghu district in 1979, was learned and followed by all parts of the country in a long time. And now, the real estate development in Guangzhou develops very healthy. According to the data, per capita living space of residents in town in 2007 had reached 19.90 square meters, about 85% of the residents had the house of their own property right.

It happens that there is a similar case. Zhangzhou city in Fujian Province has a similar way with Guangzhou in housing construction. Although in the 30 years from 1950 to

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95 <These years of our real estate>, Bu Fanzhong, Zhengzhou University Press
96 <China statistical year book>, 2007
1979, the urban construction in Zhangzhou city was quite slow, the total housing construction area was 218,400 square meters, total investment was 9574,100 yuan.\textsuperscript{97} After the Third Plenary Session of the Eleventh Central Committee, Zhangzhou city accelerated the pace of housing and urban construction. In 1979, it found Zhangzhou Unified construction office, built Yanbei new residential district, which was the first commodity house construction in Fujian province.

The Bold Attempt in housing construction in Guangdong and Fujian Province, and the other breakthrough achievements in economy reform made Chinese central government authorized the \textless Regulations of Special Economic Zone\textgreater proposed by the State Council. Shenzhen, Zhuhai, Shantou, and Xiamen are set up as Special Economic Zones.

And just because the success of the housing reform in these two Provinces, the state expanded the scope of pilot project. \textit{To October, 1980, there were already 128 cities and some counties of 26 provinces which had developed the project of building and purchasing the house individually. There were 50 cities in which government built the house and sold to individual. The area of individual buildings had reached 3320,000 square meters.}\textsuperscript{98}

4.2.3 Origin of rent

There is a concept, “land leases”. Jack Cummings said that Land leases is made up of mineral rights, subterranean rights, surface right, air right, riparian right, water right and subdivision right.\textsuperscript{99}

Preceding part of the text has mentioned that before 80s, the housing construction situation was stagnant and less developed, housing distribution system was also made government lack of construction fund. \textit{The total housing subsidy from central government in 1988 was 58368,000,000 yuan, while in 1978 was 4715,000,000 yuan. In 1988, the state revenue was 258782,000,000 yuan, financial deficits was 8049,000,000 yuan.}\textsuperscript{100} From the data we can see the great pressure state revenue and expenditure faced from the housing subsidy. Housing reform, although had solved part of the problems, but the lack of funds of urban construction was always the fundamental reason that not being solved yet.

In the beginning of 80s, to collect the fund for construction, we came up with the concept of land transferring fees, which is in fact land rent. The first applying is in Shenzhen, Luo Jingxing, deputy director general of department of housing management, in order to complete the task of housing construction, cooperated with Hong Kong developer. The government provided the land while Hong Kong developer provided the fund, and in the end they shared the profit together.

\textsuperscript{97} <These years of our real estate>, Bu Fanzhong, Zhengzhou University Press
\textsuperscript{98} <These years of our real estate>, Bu Fanzhong, Zhengzhou University Press
\textsuperscript{100} <China statistical year book>
On 8th January, 1980, ministry of Organization of municipal Party committee in Shenzhen authorized the Real Estate Agency of Shenzhen special economic zone, mainly in responsive with the cooperation affair with Hong Kong developer. This is the first real estate agency in Shenzhen, also in China. Luo Jingxing, at that time was as the general manager of the real estate agency. The first commodity residential district---- Donghu Garden is the first project of Real Estate Agency of Shenzhen special economic zone.

According to the viewpoint of nowadays, Donghu Liyuan is not the commercial resident district in its true sense, because the land was transferred by the government. Until in the project of Dongxiao Garden, the land was getting through auction, we can say that the district is really the commodity residential district. But as a bold trial, Donghu Garden has a positive affect for building and completing the commercial housing market in Shenzhen. Also Donghu Garden, began the first housing reform in Shenzhen special economic zone---- land rent.

In July of 1980, the State Council had issued <regulation about the construction land of Chinese and foreign joint venture>. Also the special economic zones and coastal economic open zone had issued some relevant local regulation, about the land-use fee for overseas-funded enterprise. After Shenzhen had set an example of transferring land, in October of 1980, the fifth session of the standing committee of the National People's Congress had given permission to the regulation like “paid land use principle” and “introducing foreign investment for developing land resource by cooperation, joint venture or sole proprietorship” in <regulation of Guangdong province>. To the year of 1980, there were already more than 100 cities having Unified construction office. In September, 1980, Beijing Unified construction office founded, becoming the second real estate company in China. This is the opening for the real estate developing in China, after the Unified construction offices of places had become real estate agency.

To summarize the character of housing reform from 1979 to 1987: varies cities had several experimental reform explorations, like experimental commodity house selling point, subsidy for house rent... after the central government summarized, are popularized to the whole country. But these reforms did not touch the essence of welfare housing system, this system was still had predominate position in city.

4.2.4 The beginning phase of Chinese real estate market

From the year of 1987 to 1991 is the beginning phase of Chinese real estate. in 1984, Guangdong province, Chongqing city began to charge land-use fee. On 26th, November, 1987, Shenzhen government firstly had competitive bidding to transfer land for residence. In 1990, reform scheme of Shanghai had come out, and housing fund system began to set up. In 1991, the State Council had given an official answer to the reform scheme of 24 cities and provinces. This phase and next phase---- from 1992 to 1998---- are the phases

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101 Bu Fanzhong, <These years of our real estate>, Zhengzhou University Press
of dual track approach period of welfare housing system and marketize housing system.

However, Chinese real estate did not enter the National Statistical Caliber until 1987, so all the statistic data we can find is all after 1987. In this period, Chinese real estate development had a larger fluctuation. We can see that in 1987 and 1988, there is a large growth points, but in 1989 it fell in the market and this continued to 1991. The primary factor affecting this phase is the policy that came up with in 1984: real estate is supported by the government, and had experiment units of commodity housing all around the country. It happened in 1985, state-owned business of China began independent accounting, this policy made the investment expanded rapidly, thus in 1987 and 1988, we had a high-speed economic growth period in real estate market.

In the beginning of 1989, there was high rate inflation, together with panic buying. At this time, the central government unveiled <the notice about tighten up the management of real estate market>. This notice aimed at standardizing market practices, regulating market order, compressing scale of investment in fixed assets, and tightening monetary policy. The notice regulated: the area where had charged the compensated land-use fee, the income must be turn in the 40% to the central government, 60% to the local government. The income of central and local government is used to the urban construction and land development, a fixed sum is for a fixed purpose.

In the same year, it is happened “Tian'anmen Square demonstrations”. There was an emergency brake in economy and polity. After the brake, Chinese economy entered a crisis phase, and it lasted from 1989 to the spring of 1992. Of course the real estate market had a severe depress.

In 1992, ministry of finance unveiled < the interim procedures about the management of compensated land-use fee>, in the procedures, it is called “land transferring fee” for the first time of the income of transferring the land, and the portion for turn it in the central government is down regulated to 5%.

4.3 From 1991 to 1998

4.3.1 Land transferring fee

Land transferring fee, which is in fact the total amount of the land rent for certain years when landowner rent the land to the user. So the nature of land transferring fee, is the complex of total rent for certain years and something like tax but not exactly tax. The administrative department of local government transfers the land-use right to the user, collects the fees from the assignee according to the regulation. After the end of the period of use, assignee needs to pay the renewal fee in order to renew the land-use right. Or if the assignee gets the land by Administrative transfer, he needs to pay taxes in arrears.
The land transferring fee is not a simple land price. For the residential project, the price can be fixed by “land bid invitation, auction and listing system”, in this case transferring fee is land price. But for the project like economically affordable housing, low-rent housing and housing for relocation households, the price is not rely on the market regulation, but a fixed price with the property of taxes and dues.

According to the condition of the transferring land, we can divide into 2 types: one is “ready land price”, which is finished the “seven accesses and site leveling”, the transferring fee is included land-use fee and developing fee. The other is “gross land price”, which is the land not having the “seven accesses and site leveling”, it is only include the transferring fee, the developer has to develop the land by himself or authorize an develop company to do it.

After the system of tax distribution had been used after 1994, land transferring fee was as a fixed income of local finance and put under the local government, little by little, it became the “second finance” in local government.

This is the scale of government revenue, and we can see that as the land transferring fee increased year by year, the total government revenue increased also.

<table>
<thead>
<tr>
<th>table 4.1</th>
<th>scale of government revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>year</td>
<td>land transferring fee (billion)</td>
</tr>
<tr>
<td>1978</td>
<td>147.937</td>
</tr>
<tr>
<td>1979</td>
<td>159.928</td>
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<tr>
<td>1980</td>
<td>171.733</td>
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<tr>
<td>1981</td>
<td>177.686</td>
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<tr>
<td>1982</td>
<td>201.507</td>
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<tr>
<td>1983</td>
<td>233.463</td>
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<tr>
<td>1984</td>
<td>283.134</td>
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<tr>
<td>1985</td>
<td>353.485</td>
</tr>
<tr>
<td>1986</td>
<td>385.932</td>
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<tr>
<td>1987</td>
<td>422.850</td>
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<tr>
<td>1988</td>
<td>472.217</td>
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<tr>
<td>1989</td>
<td>548.180</td>
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<tr>
<td>1990</td>
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<tr>
<td>1991</td>
<td>671.965</td>
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<tr>
<td>1992</td>
<td>821.569</td>
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<td>1993</td>
<td>681.875</td>
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<td>1994</td>
<td>847.233</td>
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<td>1996</td>
<td>1290.273</td>
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102  <China statistical year book>
<table>
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<tr>
<th>Year</th>
<th>Land Transferring Fee (billion)</th>
<th>Total Government Revenue (billion)</th>
</tr>
</thead>
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<tr>
<td>1997</td>
<td>24.893</td>
<td>1318.427</td>
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<td>1998</td>
<td>50.770</td>
<td>1508.904</td>
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<td>1999</td>
<td>51.433</td>
<td>1755.538</td>
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<td>2000</td>
<td>59.558</td>
<td>2046.214</td>
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<tr>
<td>2001</td>
<td>129.589</td>
<td>2508.383</td>
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<tr>
<td>2002</td>
<td>241.679</td>
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<td>2003</td>
<td>542.131</td>
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<td>2004</td>
<td>641.218</td>
<td>4328.813</td>
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<tr>
<td>2005</td>
<td>588.382</td>
<td>5005.247</td>
</tr>
<tr>
<td>2006</td>
<td>807.764</td>
<td>6190.349</td>
</tr>
<tr>
<td>2007</td>
<td>1221.672</td>
<td>8117.112</td>
</tr>
<tr>
<td>2008</td>
<td>1025.980</td>
<td>9228.630</td>
</tr>
</tbody>
</table>

Figure 4.2  Scale of government revenue

4.3.2 Tax distribution system

Tax distribution system is one of the important reasons of the coming of land transferring fee in local government, which was executed on 1st, January, 1994, and was mainly for increase the finance of local government.

From the end of 80s to the beginning of 90s in 20 century, Chinese central finance was not so good as the economy. The economic growth did not drive the central finance to grow. Data shows that, in 1979, the portion of total government revenue in GDP was 28.4%, and down to 12.6% in 1993. The portion of central finance revenue in total
government revenue was down to 31.6% in 1993 from 46.8% in 1979. So the balance of central finance was relied on the local finance revenue.

After the coming of tax distribution system, the relation of central and local finance has changed a lot, the tax categories is reduced which is collect by municipal government. Afterwards, the central finance continue to be strengthen, finance revenue was increased from about 400,000,000,000 yuan before the reform to 1000,000,000,000 yuan in 2011. The portion of total government revenue in GDP was increase from 12.6% in 1993 to about 26% in 2010. The portion of central finance revenue in total government revenue was increases to 49.5% in 2011 comparing the 39% in 1993. After it complete its mission, the problem of tax distribution system appears little by little.

In the mechanism of tax distribution system, the right of property transfers upwards to the central while the authority of office transfers downwards to the local. Local government has more and more things to do but few and few funds to govern. Since the transfer payment system is not so standard, the gap between central and local is larger and larger. Lacking of construction funds in some cities and counties has become one obstacle of the development of these areas.

Because tax distribution system has not been fixed for the new situation, in these years, only the land transferring fee can fill the shortage of construction fund. This also affect housing price in an invisible way.

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103 Bu Fanzhong, <These years of our real estate>, Zhengzhou University Press
104 Bu Fanzhong, <These years of our real estate>, Zhengzhou University Press
4.3.3 Origin of housing fund and the effect of it to the housing reform

Chinese housing fund system is an innovation of Independent housing finance system in the early 90s, when the housing system was changing from planning system to market system.

Housing fund system is the system of a kind of permanent saving paid by the workers and the units (government offices, state-owned enterprise, collective enterprise, foreign-investment enterprise, private enterprise, and other enterprises and public institutions), aiming at purchasing or building the house for workers and restore the house of workers. This system is a social security system with sociality, mutual aid and policy, in favor of collecting and circulating housing fund, it enhances the commodity housing purchasing power of workers.

As we said before, that we were in a planned economy country for a long time, the housed in towns and cities are built, distributed, and managed by the government. House is not a commodity, cannot circulate in the market. We only admitted the use value while ignored the market value. After the reform, though the local governments raised investment in housing construction, and achieved some result, because we had a large population base, a large amount of debt in housing construction, the distribution system which relies on the low rent of workers could not maintain the constructions, thus the contradiction of housing was becoming more extrusive. Especially in the 80s and 90s, local government had financial problems, enterprise revenue decreased, housing floor space completed area decreased, leaded to the decrease of housing problem solving speed. So we needed a new innovation system, which collects the housing fund from the government, unit and individual, to speed up the pace of housing construction, mollify the contradiction of housing shortage, improve purchasing ability of workers. Thus housing fund system is another production besides land transferring fee.

Housing fund system makes government, unit, and individual undertake the due obligations of housing, is more advance than the housing distribution system before. This monetization of house distribution establishes crucial conditions for the abandoning benefit-orientation apartment, building monetary rooming. It promoted the mission of housing system “from welfare to market”.

In May of 1991, Shanghai borrowed the successful housing fund experience of Singapore, combining with Chinese situation, built the Chinese housing fund system. The system regards collecting the housing special fund as the break-through, providing the housing problem the monetary prop. Limited by the financial resources and other restrain elements, the salary of workers could not be raised up drastically, and the fund has to accumulate for a long time. Half of the fund provided from the worker’s salary, as a responsibility of the individual. The fund provided by workers accounts 5% of the salary per month at that time, so the normal live of workers could not be affected due to the fund. At the same time, the company or association which the worker works for provides
the other half of the fund. It equals that the salary increases 5%, the worker is beneficial from this so most of them accept this system. As the portion of the salary which is for the fund increase slowly, the accumulation of fund had increased too. Days and months multiplying, this fund can be an important resource for solving the housing problem.

After <the decision about deepening the housing system in city> published by the State Council in 1994, the housing fund system spread to all parts of the country. To the end of 1998, 4 Direct-controlled municipalities, 15 vice provincial cities, 206 cities and most of the 433 county-level city had built housing fund system, from the aspect of coverage area, it had been practiced over 80% of the coastal areas, over 60% of the continent areas.

In 1994, the total housing fund in China was 11,000,000,000 yuan, 26,000,000,000 yuan in 1995, 39,000,000,000 in 1996, 79,700,000,000 in 1997, 98,000,000,000 in the first half year of 1998. 105

Shanghai, which practiced housing fund at the earliest, to the end of 1996, collected housing fund 11,396,000,000 yuan, the fund collected every year reached 3,765,000,000 yuan in 1996 from 425,000,000 in 1991, the increment speed was incredible. In 1996, the housing fund of that year basically equaled to the total housing construction fund of that year. In 1999, Shanghai had collected housing fund of 19,300,000,000 yuan, the increased part of that year occupied about 70% of the total housing construction fund of that year. In 2000, the housing fund in Shanghai can basically solved the housing construction source problem.106

From that on, the housing fund system had being popularized to the whole country, became one content of the housing finance system. Based on the summary of the housing fund in various regions, on 3rd, April, 1999, the State Council published <regulations about the management of housing fund>. The practice of the regulations, was a sign of the legalization and standardization of housing fund system.

The workers of office, enterprise and institution and etc. are almost covered in the housing fund system, and these workers are the social member with the vitality of productivity and potential of consumption most in Chinese economy. This laid the foundation of monetary and material basis for establishing the dominant position of individual and family in the housing market and for distribution of housing resource through market mechanism.

4.3.4 Non rational Speculation in the beginning of 90s

The second period of the Chinese real estate is from the year 1992 to 1997, this period is

105 Xie Jiajin, Gu Yunchang, The influence of macro economy from the housing system of 1998 and 1999, Ministry of Construction
106 Xie Jiajin, Gu Yunchang, The influence of macro economy from the housing system of 1998 and 1999, Ministry of Construction
the time of non-rational speculation and regulation, propulsion phase.

One of the most important things in this period is the practice of several policies. First is the housing system reform being carried out all around the world from 1991 since the Chinese real estate market open up entirely. Second is in the following year, the central government introduced the foreign capital, made the price of real estate more public and transparent, expanded the market regulation scope, granted the consumer loans.

After in 1992, South Tour Speeches of Deng Xiaoping had published, the enthusiasm of developing the Chinese market economy was aroused. At the same time, the mental preparation to the market economy of the management was not enough, the practical experience was shortage. This leaded to an overheating of the whole market, the total social supply is far behind the total social demand. In 1992~1993, Chinese real estate market has a very high-speed growth, it happened the growing rate of investment of one month reaching 146.9%.\(^{107}\)

At the same period, in Hainan province and Beihai city, the real estate housing price went up from 20,000 yuan to 100,000 yuan, the amount of increase is very large.\(^{108}\) Many of the entrepreneur earned first bucket of gold at that time. In this phase, the high-speed of price growth, had disturbed the financial order, leaded to an overheating economy. The price of the raw and processed materials like steel and concrete was also soaring up. Stock on hand sold up rapidly, many new raw material factory showed up, together with many counterfeit and shoddy products. These products leaded to many bad construction projects at that time.

### 4.3.5 The example of the real estate bubble in Hainan province

A typical example of this real estate market overheating is Hainan real estate bubble. In 1988, Hainan became a province break away from Guangdong province. Since then a lot of people came to Hainan province for money. In 1992, the investment of real estate in Hainan reached 8700,000,000 yuan, occupied half of the total investment in the province. In this year, the economic growth rate reached 83%, the 40% of the financial revenue of the province came from real estate.\(^{109}\)

The average price of real estate in Hainan was 1350 yuan/ m\(^2\) in 1988, 1400 yuan/ m\(^2\) in 1990, 5000 yuan/ m\(^2\) in 1992, increased 257% comparing to 1991. In the first half year of 1993, it reached its peak of 7500 yuan/ m\(^2\). And in the second half year of 1993, the price began to go down.\(^{110}\) According to statistic, the highest land price in 1991 was 980,000 yuan/ acre, to the year of 1993, it reached its peak of 6800,000 yuan/ acre. It decreased to about 1000,000 yuan/ acre in 1996, went back to the level of 1991.\(^{111}\)

\(^{107}\) Chinese statistical communiqu of national economy and social development of 2008, statistical bureau  
\(^{108}\) Bu Fanzhong, <These years of our real estate>, Zhengzhou University Press  
\(^{109}\) <China statistical year book>  
\(^{110}\) <China real estate market statistical year book>, 1996  
\(^{111}\) <China statistical year book>, 1996
The sudden adjustment of central policy made the Hainan real estate market collapsed. On 24th, June, 1993, <the suggestion about current economic condition and strengthening macro-control> by the State Council began to practice. The suggestion included the regulation of controlling the credit scale, increasing deposit and government loan interest rate, withdrawing the illegal inter-bank lending fund within limited time, and reducing construction fund ...

In the period of real estate bubble, the fund in the nationalized bank, and the funds in state owned enterprises, township enterprise and private capital flew into real estate market through different way. After the rapid expansion, Hainan real estate market collapsed in a sudden. After, most of the developer became the debtor of the bank, they left the earned money for themselves, the real estate houses for the banks. In the end, the banks became the biggest developers in Hainan.

The population of Hainan was about 1,000,000, only the number of real estate agency was about 13,000, almost all the real estate houses are in transaction, all the projects are in construction. After the bubble burst, 95% of the real estate agency went bankrupt, and thousands of developer ran away with their money. The mortgage of Hainan real estate devalued for a very long time. Many houses were pledged for several times, this also leaded to many creditor’s right disputes.

In this real estate overheating, the overstock commodity houses in Hainan which is a province occupied 0.6% of Chines population occupied 10% of the total overstock houses in China. The uncompleted buildings are as many as 600, 16,000,000 square meter, 18,834 acres of stacking land, 80,000,000,000 yuan of stacking fund. The bad loans in the commercial bank were as much as 30,000,000,000.

4.3.6 The regulation and control after the non-rational speculation

In the economy overheating of this round, the main problems of real estate market were: the price soaring of real estate housing, soaring of real estate investment, land supply out of control, too many development of top-grade building, lack of standardization of developing, market falling into disorder... thus at the same time of macro-economy tightening control, the real estate market needed tightening control too.

In the end of 1993, the state realized the crises. In order to develop the real estate market healthily, the central government unveiled the policy to regulate and control the real estate market, standard market behavior and changing the distribution of investment. In the following year, the State Council unveiled <notice about strengthen macro-regulation of fixed investments> and <decision about further the reform of housing system in town>. And at the same time, the deposit rate was raised to 14% of

112 <China statistical year book>
113 <China statistical year book>
the annual interest rate. From 1995 to 1997, some regulations about controlling real estate market were continued to come up, like the <Real Estate Administration Law> and <Value-Added Tax Law> in 1995, which aiming at rectifying financial order and tight monetary policy and financial policy.

About the main methods we used for the macro-control of this round are: tightening fiscal expenditure and monetary policy (raising interest rates, reducing loans, receiving the loans in advance). The nationalized bank could not even grant loans to all the real estate projects. The goal was compressing fixed investments (real estate investment included), reducing total social demand, keeping balance of the total demand with total supply.

After the efforts of 3~4 years, the regulation and control of real estate market of this round had reach its goal of tightening and cooling, and got the achievement. In the process of unveiling relative regulations, the overheating of real estate market was cooling down slowly, the investment of real estate reduced. The soaring price of housing had being restrained, the develop structure was adjusted, the market order was rectified also. Thus from 1994 to 1997, the real estate growth are quite slow.

There are problems existed in the real estate market regulate and control of this round. One of the problems is uniformity of the monetary policy. In 1993 and 1994, when practicing the tight money policy, it is regulated that the loan to all the real estate project could not be granted, some loans that had already be granted must be withdraw. Although the tight money policy is correct at that time, but the consideration that the loan requirement of different or the same kind of construction is different is not be taken according to the actual conditions, but treated equally without differentiation. This leaded some unnecessary chaos in the market. Another problem is the execution of the regulation and the formation of guiding ideology, is not based on a correct understanding of the position and function of real estate. Some people began to be prejudice and negative in the real estate market.

The unbalance of supply and demand produced large amounts of overstock commodity houses from 1992. According to statistics, to the end of 1995, the vacancy building area of commodity house of China had reached 50,310,000 square meters, increased 53% comparing to the end of 1994. In the vacancy houses, area of normal commodity house were 3618 square meters, accounted for 72%, while villa and high-grade apartment accounted for 28%. It is out of keeping with the reform of the economic system. In the traditional housing system, the housing demand is limited, housing consuming market is hard to expand, it is also difficult to develop a few new growth points in housing construction. The government official has realized that the housing reform must be deepened continually.

Let’s summarize the housing reform achievement we got in this period. The data of per

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114 Bu Fanzhong, <These years of our real estate>, Zhengzhou University Press
capita residential building area in city after 1978 shows, that the area was 6.7 square meters in 1978, 17.78 square meters in 1997, in this 20 years, the growth speed is 0.55 square meter every year.\textsuperscript{115} Also in these 20 years, there was change in Chinese total completed housing area. In 1997, Chinese total completed housing areas were 405,500,000 square meters, about 10 times comparing to 1978, 4 times comparing to 1981. About the commodity housing area, in 1997, the commodity house selling area reached 78,000,000 square meters, 4.29 times comparing to 1986, occupied 20% of housing supply area in city of that year. In house rent aspect, there was also some achievement. The average public house rent in 35 big cities was 1.29 yuan/ m\textsuperscript{2}.\textsuperscript{116}

\begin{table}[h]
\centering
\begin{tabular}{|l|l|}
\hline
year & per capita living space of city (m\textsuperscript{2}) \\
\hline
1978 & 6.7 \\
1979 & 6.9 \\
1980 & 7.2 \\
1981 & 7.7 \\
1982 & 8.2 \\
1983 & 8.7 \\
1984 & 9.1 \\
1985 & 10.0 \\
1986 & 12.4 \\
1987 & 12.7 \\
1988 & 13.0 \\
1989 & 13.5 \\
1990 & 13.7 \\
1991 & 14.2 \\
1992 & 14.8 \\
1993 & 15.2 \\
1994 & 15.7 \\
1995 & 16.3 \\
1996 & 17.0 \\
1997 & 17.8 \\
1998 & 18.7 \\
1999 & 19.4 \\
2000 & 20.3 \\
2001 & 20.8 \\
2002 & 22.8 \\
2003 & 23.7 \\
2004 & 25.0 \\
\hline
\end{tabular}
\caption{Per capita living space of city from 1978 to 2009}
\end{table}

\textsuperscript{115} <China statistical year book>, 1998  
\textsuperscript{116} Chen Jie, “The 60 years of Chinese housing business”  
\textsuperscript{117} <China statistical year book>
2005   26.1
2006   27.1
2007   27.06
2008   29.6
2009   30
2010   31.6

<table>
<thead>
<tr>
<th>year</th>
<th>Selling area</th>
<th>Increase of selling area</th>
<th>Purchasing area by individual</th>
<th>Portion of purchasing area by individual</th>
</tr>
</thead>
<tbody>
<tr>
<td>1987</td>
<td>2377</td>
<td>29.54%</td>
<td>426.66</td>
<td>17.95%</td>
</tr>
<tr>
<td>1988</td>
<td>2549</td>
<td>7.24%</td>
<td>722.56</td>
<td>28.35%</td>
</tr>
<tr>
<td>1989</td>
<td>2491</td>
<td>-2.28%</td>
<td>805.49</td>
<td>32.34%</td>
</tr>
<tr>
<td>1990</td>
<td>2545</td>
<td>2.17%</td>
<td>730.85</td>
<td>28.72%</td>
</tr>
</tbody>
</table>

figure 4.4  per capita living space of city

However, for the selling of commodity house, since the welfare housing system was still in dominant position, most of the workers can still get profit from this system, and the salary of workers at that time was low, the development of commodity house encountered bottlenecks in 1994 to 1997. *The growth rate of commodity house selling area was 1.3% in 1994, 10.9% in 1995, 1.6% in 1996 and 14% in 1997. Besides, since portion of purchasing area by individual increased to 54.67% in 1994, after, it stayed in around 50%~60%, without big break.*

118 Chen Jie, “The 60 years of Chinese housing business”

119 Chen Jie, “The 60 years of Chinese housing business”
<table>
<thead>
<tr>
<th>Year</th>
<th>Income</th>
<th>Growth %</th>
<th>Expenditure</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>2745.17</td>
<td>7.87%</td>
<td>926.55</td>
<td>33.75%</td>
</tr>
<tr>
<td>1992</td>
<td>3812.21</td>
<td>38.87%</td>
<td>1456.01</td>
<td>38.19%</td>
</tr>
<tr>
<td>1993</td>
<td>6035.19</td>
<td>58.31%</td>
<td>2943.39</td>
<td>48.77%</td>
</tr>
<tr>
<td>1994</td>
<td>6118.03</td>
<td>1.37%</td>
<td>334.53</td>
<td>54.67%</td>
</tr>
<tr>
<td>1995</td>
<td>6787.03</td>
<td>10.93%</td>
<td>3344.81</td>
<td>49.28%</td>
</tr>
<tr>
<td>1996</td>
<td>6898.46</td>
<td>1.64%</td>
<td>3666.82</td>
<td>53.15%</td>
</tr>
<tr>
<td>1997</td>
<td>7864.3</td>
<td>14.00%</td>
<td>5233.72</td>
<td>66.55%</td>
</tr>
</tbody>
</table>

### 4.3.7 Comfortable Housing Project

In the real estate bubble of 90s, one of the regulation and control of the government was using Comfortable Housing Project to remit the unbalance of supply and demand in the market. Comfortable Housing Project was a housing construction project, with social security property, that was in charged by government, provided with cost price to the difficult households of low income in the city. This project was practice from 20\textsuperscript{th}, January, 1995.

This project is a tool to solve the housing problem of residences with low income. With the function of regulate the housing market, to regulate the income distribution.

### 4.4 From 1998 to 2003

#### 4.4.1 New growth points

*In 1996, Chinese real estate market went into period of economic re-adjustment, the average rate of profit was just 0.91%.*\(^{120}\) This adjustment aimed at the overstock commodity houses produced because of the unbalance of demand and supply from 1992. On one hand, real estate market had a large amount of vacant commodity houses, on the other hand, there were also a large amount of material difficult households lacking of residential area, hoping living condition to be improved. The insufficiency of effective demand restrict the development of real estate market, also restrain the possibility of the residences to improve their living condition.

The sudden attack of financial crisis in Asia in 1997, provided China a unexpected moment for deepen housing system reform. In order to take active steps to effectively tackle the financial crisis, expand domestic demand, China began to implement a pro-active fiscal policy, and tried to find a new growth points. Zhu Rongji, vice-premier, thought that the most possible to become consumption hot spots is at present was residential house, the housing system reform had to be improved, by liquidizing remnant assets, activating the circulation, to improve housing construction. He mentioned, developing housing construction can not only satisfy the demand of residences, but stimulate the developing of the related industries like steel, building materials, chemical industry and decorative material... we still need to have a god plan for the housing

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\(^{120}\) Bu Fanzhong, *These years of our real estate*, Zhengzhou University Press
construction. Housing construction cannot be built without city infrastructures, and it has to be facilitate the living. It cannot sell if the transportation is not good, even with good quality.

To cultivate real estate industry become new growth point had become a consensus of central government, this demand the total reform of housing system. The commodity house and real estate cannot survive and develop unless the physical welfare distribution system which is adaptive with the planned economy is abandoned totally.

In July, 1996, Ministry of Construction assigned relative professional staff to deepen the analysis of developing housing construction. The result of the analysis was like the preceding part of the text: after the reform and openness, although the government threw into large amounts of fund for the construction, welfare housing system still prevents real estate industry to form an accumulation, cyclic development mechanism.

To the end of 1996, there were 3000,000 difficult households with the per capita living space not reaching 4 square meters. The contradiction of housing demand and supply in city was not solved basically. There were dangerous houses more than 30,000,000 square meters in 640 cities to be transformed, improving the living condition for residences was the need press at present. On 16, July, Ministry of Construction reported to the State Council <Apply of accelerating the housing construction, developing real estate market, promote the national economy developing healthily>. The report proposed the possibility of housing construction to be the growth point of next economic developing round from 5 aspects.

In 1995, there were 53.09% of the commodity houses sold by individual. Especially in coastal areas, the enthusiasm of individual purchasing commodity house was high. Just take indoor decoration for example, the 4,000,000 complete houses of every year, if it takes 10,000 yuan for decoration for every house, it would be 40,000,000,000 yuan. As the income improvement and establishment of consumption concept, it is possible to increase the housing consumer spending.

4.4.2 The innovative practice of Changning District in Shanghai

Changning District of Shanghai took the lead in practicing in this reform. When analyzing the real estate market, Changning District government fund that selling the public house before entering the market restrict the liveness of the market. Because of the restrict of the regulation----public house can only be circulate in the market after being brought for 5 years---- large amounts of stock was lack of circulation. This prevented the prosperous of secondary market and also restricted the effect demand of primary market. In the beginning of 1996, Changning District made a questionnaire survey to 10% of the 50,000 households which brought the public house. The result showed that, 0.53% of the

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121 Bu Fanzhong, <These years of our real estate>, Zhengzhou University Press
122 Bu Fanzhong, <These years of our real estate>, Zhengzhou University Press
household----22 households---- had surplus house to sell, 1.8% of the household----75 households---- hoped to change a smaller house or a house with worse location to make profit, 33.32% of the household---- 1385 households---- hoped to purchase new house, increase the living area, improve the living condition by selling the existing house, 64.34% of the household---- 2674 households---- did not consider to sell the house.

Through the survey, we can collect the information of two aspects: one is most of people selling house not for the profit but for improving living condition, second is 1/3 of the residences had strong desire of improving living condition using existing house. After study, Changning District proposed the crevasse of purchasing by price difference. This encourages residences purchasing new house by selling existing house and pay the price difference, to change a larger, better house. After authorized by the government, the experimental unit began in Changning District.

In the first 20 households of experimental unit, there were 17 households sold the old house and purchased new house. The average addition area of each household were 40 square meters, price difference was 136,000 yuan (the minimum 30,000 yuan, maximum 270,000 yuan). The 17 households were the working families making more than median income. If their family income was 25,200 yuan at that year, the addition house price would be 5.39 times of family income.123

For a long time, due to the low salary of workers, everyone fight for the use right of public house in the welfare housing system. Selling public house to the workers was a kind of compensation to workers. Selling the public house in the market to get the profit from the price difference between the cost price and market price was the disguised income of the workers changing to Dominant income. It was consistent with changing physical distribution to monetary distribution, changing construction fund to housing fund together with the salary of the workers.

The success of the experimental unit let Changning District find the combining unit of purchasing willing and purchasing capability. On 28th, July, 1996, when house as a commodity just sprouted in the heart of the residence, Changning District found the first real estate trading center in the Shanghai and even in China. This caused a sensation all around the country. After half month, Changning real estate trading center put sold public house in the market, holding a real estate trading exhibition, provide experience for the development of secondary market in Shanghai.

If we just aimed at the family without house when we consider the real estate market, it would be difficult because these families had problems of economy and were restrained by reform policy. However, the object of purchasing house by price different was many potential household. They had desire to expand the living area and improve the living condition, also had the potential capability to consuming.

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123 Bu Fanzhong, <These years of our real estate>, Zhengzhou University Press
Very soon, Changning real estate trading center established housing acquiring company, mobilized real estate agency in the trading center to have used house acquiring business. Only 3 months, the housing acquiring company purchased 130 used houses, about 70,000 square meters. According to the survey, in 5 years there would be 1,150,000 households to improve the living condition, if we calculate 30 addition square meter for each household, we need new house of 34,500,000 square meter, if it is 2500 yuan per square meter, it would be collected 84,300,000,000 yuan. Thus we can see a huge real estate market to be developed.

After this method was practiced, trading old house for new policy was welcome to the residents, this activated the vitality of the whole market, also provided precious experience for the coming housing reform.

4.4.3 Beginning of housing mortgage loan policy

Also in 1996, China began to develop housing mortgage loan. Housing mortgage loan is a policy that the bank provides most of the purchasing fund for the creditor, the creditor pay to the bank the principal and interest by stages. While not paying off the principal and interest, the creditor takes the house contract on mortgage in bank, if he cannot pay back all off the loan, the bank has right to sell the house to cancel out the loan. On 28th April, 1997, People’s Bank of China issued < experimental method of individual collateral loan for private housing management>, in which the maximum loan was 70% of the housing price, and the maximum duration of loan was 20 years. In the account of the commercial bank or housing deposit bank, the outstanding obligation must occupies not less than 30% of the housing price, which is taken as the down payment. In the attachment, there was also the list of city practicing comfortable housing project. These policies made the bedding for the general housing reform.

To the year 2000, China Construction Bank in Shanghai had granted individual housing loans 8,760,000,000 yuan, which equaled total individual housing loans from 1992 to 1997. Tianjin had granted 1,340,000,000 yuan individual housing loans in 1998 for 25,000 households. According to the data, the loan in People’s Construction Bank of China, Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China had reached 34,600,000,000 yuan in April of 1998, 59,300,000,000 yuan in October of 1998, 71,000,000,000 yuan in December of 1998. The increasing housing loan from January to October of 1998 was 28,800,000,000 yuan. 30% of the housing loans is housing loans on authorization from housing fund deposit of the bank, the others were the housing loans on own account.

4.4.4 The darkest hour that before the dawn of real estate developer

The year of 1997, for many real estate developers was a difficult year, hard to spend. In

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124 Bu Fanzhong, <These years of our real estate>, Zhengzhou University Press
125 Xie Jiajin, Gu Yunchang, The influence of macro economy from the housing system of 1998 and 1999, Ministry of Construction
1997, the real estate market had a general loss, almost lost its vitality.

4.5 From 1998 to 2003

4.5.1 period of high-speed economic growth in real estate market

The year of 1998 to 2003, is the breakthrough period of Chinese housing system reform. 1998 is the hallmark year of the marketization of Chinese real estate. In this year, the welfare housing distribution system was abandoned, marketized housing system was in full swing, “commodity house” became the key word of urban housing construction. Before this, the housing system was based on physical distribution, from then on, it is a new system based on marketization, and the change to money distribution of housing was realized.

Actually, from 1978 to 1998, we had experienced 5 housing reforms. From the first one in 1978, the second one in 1991, the third one in 1993, the forth one in 1996 to the fifth one in 1998---- the full scale housing reform, it pressed forward steadily one by one.

In 1996, central government proposed to make housing industry a new growth point in national economy, this proposal would be the basis of the forth housing reform. In this period, a new concept was presented: stimulating the enthusiasm of purchasing house of residences, making real estate a kind of individual consumer’s goods. Before this concept, few people would think to purchase a house by individual. The data of Beijing Town Planning Board showed that in 1996, 52% of the completed residential area was built by enterprise and public institution, 48% of the completed residential area was commodity houses. But in these commodity houses, most of them are brought by the enterprise and public institution.

While in the whole country, the total investment of housing in city was 298,723,000,000 yuan in 1996 and 297,711,000,000 yuan in 1997, completed residential area was 301,000,000 square meters in 1996 and 312,000,000 square meters in 1997. In this areas, areas constructed by individual was 52,000,000 square meters in 1996 and 58,000,000 square meters in 1997, others were commodity houses and the houses built by enterprise and public institution, about 250,000,000 square meters per year. In commodity houses, the parts purchased by individual were 35,000,000 square meters in 1996 and 50,000,000 square meters in 1997. In the houses built by enterprise and public institution, most of them were distributed to workers for free, because the fund of construction was collected from the workers, others were sold to workers with cost price.126

<table>
<thead>
<tr>
<th>area under construction and completed residential area</th>
</tr>
</thead>
</table>

126 Xie Jiajin, Gu Yunchang, The influence of macro economy from the housing system of 1998 and 1999, Ministry of Construction,
127 <China statistical year book>
<table>
<thead>
<tr>
<th>year</th>
<th>purchasing land (hectare)</th>
<th>area under construction (1,000 m²)</th>
<th>completed area (1,000 m²)</th>
<th>completed residential area (1,000 m²)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>10,109.30</td>
<td>507,701</td>
<td>175,666</td>
<td>141,257</td>
</tr>
<tr>
<td>1999</td>
<td>11,958.90</td>
<td>568,576</td>
<td>214,108</td>
<td>176,407</td>
</tr>
<tr>
<td>2000</td>
<td>16,905.20</td>
<td>658,969</td>
<td>251,049</td>
<td>206,033</td>
</tr>
<tr>
<td>2001</td>
<td>23,409.00</td>
<td>794,117</td>
<td>298,674</td>
<td>246,254</td>
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<td>2002</td>
<td>31,356.80</td>
<td>941,040</td>
<td>349,758</td>
<td>285,247</td>
</tr>
<tr>
<td>2003</td>
<td>35,696.50</td>
<td>1,175,526</td>
<td>414,641</td>
<td>337,746</td>
</tr>
<tr>
<td>2004</td>
<td>48,894.60</td>
<td>1,476,829</td>
<td>526,379</td>
<td>426,197</td>
</tr>
<tr>
<td>2005</td>
<td>38,253.70</td>
<td>1,660,533</td>
<td>534,170</td>
<td>436,829</td>
</tr>
<tr>
<td>2006</td>
<td>36,573.60</td>
<td>1,947,864</td>
<td>558,309</td>
<td>454,717</td>
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<td>2007</td>
<td>40,245.80</td>
<td>2,363,182</td>
<td>606,067</td>
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<tr>
<td>2008</td>
<td>39,353.40</td>
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<td>543,341</td>
</tr>
<tr>
<td>2009</td>
<td>31,909.50</td>
<td>3,203,682</td>
<td>726,774</td>
<td>596,287</td>
</tr>
<tr>
<td>2010</td>
<td>40,969.50</td>
<td>4,055,389</td>
<td>759,610</td>
<td>612,157</td>
</tr>
</tbody>
</table>

After some housing meetings in the first half years of 1998, Chinese government decided to abandon welfare housing distribution system in the second half of the year. It suggested to changing the construction fund of enterprise and public institution to housing allowance, at the same time, let workers take out their money from the bank for the housing investment. *To June, 1998, the collected housing fund of China reached 98,000,000,000 yuan.*

The *notice about deepening the city housing system and accelerating housing construction by the State Council* published on 3rd July, 1998, announced that form the

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128 *China statistical year book*, 1998
second half year of 1998, the physical housing distribution would be abandoned and began monetization of housing distribution. Build and complete the housing supply system based on economically affordable housing, carry forward the existing housing system reform, cultivate and regulate housing transaction market, take supportive policy, accelerate the construction of economically affordable housing, develop housing finance, strengthen the housing property management. After stopping physical housing distribution, economically affordable housing can only be sold instead of rent. Encourage workers to purchase house using salary and housing fund, with the help of the mortgage loan of the bank. According to the preliminary estimate, the household bear 30% of the house price, the other 70%, they use their deposit, their housing allowance and house fund to pay in the following 20 years.

The source of house price is: salary, housing fund, mortgage loan, the housing allowance transformed by construction fund of their association.

It is allowed to pay housing allowance to the worker without house or area of the house not reaching the standard in the city where the housing price is high, to improve the capability of purchasing power of workers. The standard of house price/ income are 4, which the house price is the average price of an economically affordable housing of 60 square meters and the income is the annual salaries of a two people family. If the ratio is more than 4, the government or the association would pay housing allowance to these workers.

The notice pointed out that practice different housing supply policy for different household. The households with lowest income are provided by government the low-rent housing because they cannot afford to buy a house. The households with low income are provided economically affordable housing, while other household with middle or high income purchase or rent the commodity house in the market. At that time, the Ministry of Construction made a separation of the income population: the group of highest and lowest income occupies 10% and 10%, and the others are the group of low income, that is 80%. That is to say, 80% of the population in city would be live with economically affordable housing for the problem of living.129

The main representation of real estate market from 1998 to 2003 was economically affordable housing based market. From 1998 to 2003, the total completed residential areas was 477,000,000 square meters, solved the living problem of more than 600 households. However, in this phase, non-marketize house still occupied most of the market.130

The housing reform still asked for completing housing fund system. To the end of 1999, the ratio of housing fund which is hand in by individual and association could not be less than 5%, if condition permits, it can also be raised. Until 1999, the housing fund system

129 Ren Zhiqiang, “achievement of housing marketizing reform”
130 Ren Zhiqiang, “achievement of housing marketizing reform”
had covered 31 provinces and municipalities directly under the central government, the collected housing fund had reached about 120,000,000,000 yuan.\textsuperscript{131}

The intervention of finance, is the key point of realize housing consumption. In the developed countries, individual purchase houses by the mortgage loan, payment by instalments. China is a developing country, the average income is lower than developed countries, Engel coefficient is higher than developed countries. So even we have housing allowance, many residences still could not afford to pay off all the money of the house. The housing secured loan must be set up and complete to encourage residences purchase housing in advance and boost domestic consumption. It is better to delete the scale restrict of individual housing secured loan, relaxing loan fixed number of year, complete the mortgage loan insurance and mortgage loan registration system.

People's Bank of China issued <management of individual housing secured loan>, regulated average capital plus interest method and average capital method, allowed commercial bank developing mortgage loan service. To encourage purchasing house, central government made mortgage loan instruction plan of 100,000,000,000 yuan, various regions issued related policy, for example, Shanghai had a policy about purchasing house with tax reimbursement, Hangzhou had a policy to encourage residences purchase high rise.

Besides this, opening secondary market represents the general trend. As the improvement of the living condition, more and more workers were not satisfied the existing house and had the need to change the house. They had the capability to change the house and hoped the opening of secondary market. They transact houses, sell old house, buy new house through the secondary market, changing the potential demand to real demand, increasing the housing investment and consumption. This is the important constituent part of the new growth point.

To sum up the important policy of this housing reform: canceling welfare housing distribution system, increasing housing subsidy, practicing different housing policy according to different households, continuing comfortable housing policy and housing fund system, beginning the individual mortgage loan, opening secondary market.

These policies, opened the new progress of housing reform in city, and became the threshold of new housing system. \textit{Per capita living space increased to 8.8 square meters in 1997 from 3.6 square meters in 1978. Per capita using space reached 12.8 m\textsuperscript{2}, and the difficult households with living area under 4 square meters were solved basically.}\textsuperscript{132}

\textit{To the middle of 1998, self-owned houses occupied over 50% of the total ones, in some provinces did over 60%. The development of comfortable housing project went very fast},

\textsuperscript{131} Xie Jiajin, Gu Yunchang, The influence of macro economy from the housing system of 1998 and 1999, Ministry of Construction

\textsuperscript{132} Xie Jiajin, Gu Yunchang, The influence of macro economy from the housing system of 1998 and 1999, Ministry of Construction
in the 3 years from 1995 to 1997, total investment was 62,500,000,000 yuan, the construction scale in 1997 was 7,159 square meters, solved 650,000 households’ living problem. The construction scale until the first year of 1998 reached 106,490,000 square meters, and was beyond the plan of the total amount.\textsuperscript{133} To 2005, Per capita residential building area in the city reached 26.1 square meters, increased 1.05 square meters from 1998.\textsuperscript{134}

4.5.2 economically affordable housing

When China abandoned physical housing distribution system, took monetize housing distribution, the housing investment was also changed, the main direction the housing system which is based on the economically affordable housing.

Economically affordable housing is the house which is in the list of government plan, organized by government, constructed by real estate agency, sold to low-income family with low profit. It is the house with social security, economical efficiency, feasibility. Economical efficiency means the house price comparing the same ones in the market is lower, can be afford by low-income family. The land which occupied by the economically affordable housing is transferred gratis by government, without land transferring fee. Feasibility means that the construction standard cannot be lower or slashed, should be convenient to use. Like many other countries, economically affordable housing is a policy for low income family to solve living problem, can only be sold rather than rent. The other kind of housing for renting is low-rent housing policy.

Under the guide of market, as the adjustment of housing investment construction, economically affordable housing became the main part of housing supply step by step. In 1998, the completed residential areas of economically affordable housing was 40,310,000 square meters, in 1999 it reached 91,630,000 square meters. In the meantime, low-rent housing policy began in the areas like Shanghai, Tianjin, Guangdong province, Sichuan Province and Shandong province. The low-rent housing of 40,000 square meters in Tianjin was completed, the about 600 low-rent housing in Guangzhou were welcome 200 households.\textsuperscript{135} Besides, many of the commodity houses from real estate agency were built beautifully and with high quality.

According to the < notice about construction and management of economically affordable housing> issued on 11th, November, 2003, the standard area of economically affordable housing is from 60 to 110 square meters. Target customer is mainly the difficult household with the yearly family income less than 30,000 yuan, if it is in the same condition, the teacher and retiree are prior to be considered. If one applies economically affordable housing, the Housing proof, Income survey and proof must be presented by the work unit where the worker works, if he does not have a fixed job, the

\textsuperscript{133} Xie Jiajin, Gu Yunchang, The influence of macro economy from the housing system of 1998 and 1999, Ministry of Construction
\textsuperscript{134} <China statistical year book>, 2005
proofs are provided by street committee. These candidates are examined and verified by
construction agency of economically affordable housing and only when eligibility, he can
buy an economically affordable housing. The price is according to the meager profit
principle, and the lowest price is 1500 yuan/ m$^2$. But according to different area, the
price is different. Since the policy objective of economically affordable housing is not so
clear, in the process of implementation there are some uncontrollable phenomena. From
1998 to 2993, the completed residential areas of economically affordable housing were
just 477,000,000 square meters, solved the living problem of about 600 households,\textsuperscript{136}
but unfortunately, economically affordable housing did not become the main channel of
housing supply.

\textbf{table 4. 5} developing and sale condition of economically affordable house from 1997 to 2008\textsuperscript{137}

<table>
<thead>
<tr>
<th>year</th>
<th>new area under construction (m$^2$)</th>
<th>portion of commodity house (%)</th>
<th>investm ent (billion yuan)</th>
<th>year to year growth</th>
<th>portion of commodity house (%)</th>
<th>sales area</th>
<th>portion of commodity house (%)</th>
<th>area of dwelling size</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>17,210,000</td>
<td>15.65</td>
<td>18.5</td>
<td>12.05</td>
<td>12,120,000</td>
<td>7.82</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1998</td>
<td>34,660,000</td>
<td>20.83</td>
<td>27.1</td>
<td>46.5%</td>
<td>13.01</td>
<td>16,670,000</td>
<td>20.78</td>
<td></td>
</tr>
<tr>
<td>1999</td>
<td>39,700,000</td>
<td>21.12</td>
<td>43.7</td>
<td>61.3%</td>
<td>16.56</td>
<td>27,010,000</td>
<td>22.69</td>
<td></td>
</tr>
<tr>
<td>2000</td>
<td>53,130,000</td>
<td>21.77</td>
<td>54.2</td>
<td>24.0%</td>
<td>16.38</td>
<td>37,600,000</td>
<td>20.17</td>
<td></td>
</tr>
<tr>
<td>2001</td>
<td>57,960,000</td>
<td>18.98</td>
<td>60.0</td>
<td>10.7%</td>
<td>14.22</td>
<td>40,210,000</td>
<td>16.89</td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td>52,800,000</td>
<td>15.21</td>
<td>58.9</td>
<td>-1.8%</td>
<td>11.27</td>
<td>40,040,000</td>
<td>13.50</td>
<td></td>
</tr>
<tr>
<td>2003</td>
<td>53,310,000</td>
<td>12.16</td>
<td>62.2</td>
<td>5.6%</td>
<td>9.18</td>
<td>40,190,000</td>
<td>9.64</td>
<td></td>
</tr>
<tr>
<td>2004</td>
<td>42,570,000</td>
<td>8.88</td>
<td>60.6</td>
<td>-2.6%</td>
<td>6.86</td>
<td>32,620,000</td>
<td>6.46</td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>35,130,000</td>
<td>6.37</td>
<td>51.9</td>
<td>-14.4%</td>
<td>4.78</td>
<td>32,050,000</td>
<td>6.02</td>
<td>108.5</td>
</tr>
<tr>
<td>2006</td>
<td>43,790,000</td>
<td>6.8</td>
<td>69.7</td>
<td>34.3%</td>
<td>5.11</td>
<td>33,370,000</td>
<td>5.00</td>
<td>98.6</td>
</tr>
<tr>
<td>2007</td>
<td>48,100,000</td>
<td>6.1</td>
<td>82.1</td>
<td>19.7%</td>
<td>4.56</td>
<td>35,080,000</td>
<td>6.49</td>
<td>98.5</td>
</tr>
<tr>
<td>2008</td>
<td>56,220,000</td>
<td>7.04</td>
<td>98.3</td>
<td>18.2%</td>
<td>4.45</td>
<td>36,270,000</td>
<td>7.82</td>
<td>91.6</td>
</tr>
</tbody>
</table>

\textbf{4.5.3 Housing subsidy}

\textsuperscript{136} <China statistical year book>, 2003
\textsuperscript{137} <China statistical year book>
There are many methods of monetize housing distribution, and one is increasing the salary, putting the housing fee into salary directly. Second is building housing fund, the units paying part of it for workers, actually this action is increasing the salary too. The third one is bonus house allowance, to complete the insufficient of the salary. Housing subsidy is house allowance.

Due to the uneven of the development of social and economy, the existing the situation that the housing price in different cities is far higher than the worker’s income. In some small cities or towns, the commodity house is not so expensive, normal households can basically purchase economically affordable housing with the salary, housing fund and the help of mortgage loan. In these places, the key point is building and completing housing fund system, playing the role of housing finance.

In big cities, due to the high price of housing, although the workers have salary and housing fund, they cannot still purchase economically affordable housing (the ratio of house price and income is more than 10 in the cities like Beijing and Shanghai). In order that most of the residences can afford to buy a house, except controlling the house price, it is needed to pay the housing subsidy or increasing the ration of housing fund paid by the units.

Like housing fund, the limit of housing subsidy is turning up since the policy practiced, for encourage residences buy houses to expand domestic demand.

According to the subsidy standard of workers in different classes in Beijing in 2007, the subsidy is:
Leading roles of ministries or equivalents, 240 yuan/ month,
Assisting roles of ministries or equivalents, 210 yuan/ month,
Leading roles of departments or equivalents, 130 yuan/ month,
Assisting roles of departments or equivalents, 115 yuan/ month,
Leading roles of divisions or equivalents, 100 yuan/ month
Assisting roles of divisions or equivalents (Senior Technicians), 90 yuan/ month
Leading and Assisting roles of sections or equivalents (technician, section member which works for more than 25 years, office worker, normal worker), 80 yuan/ month
Under sections or equivalents (Primary worker, and worker which works less than 25 years), 70 yuan/ month

4.5.4 Housing mortgage loans system

In April, 1997, China Construction Bank took the leading in opening individual housing loan, from then on, the individual housing loan was presented in the real estate market. In 1988, China terminated welfare housing distribution system, on 7th April of the same year, People’s Bank of China issued <notice about increasing the investment of housing credit and support the housing construction and consumption>, then issued <
management of individual housing loan> canceled the limit of granting housing loan to individual, but having privilege interest rate for individual housing loan. From then on, the individual mortgage loan entered a new phase. Individual housing mortgage loan promotes the development of real estate market, boosts the circulation of commodity houses is the source power of real estate. As the mortgage service expanding, the bank proposed other professional service like second-hand house mortgage loan, decoration mortgage loan.

Individual mortgages include personal housing accumulation fund loan and personal housing mortgage. Personal housing accumulation fund loan was carried out from 1994, however, personal housing mortgage was not carried out until 1997. In May, 1998, People's Bank of China issued <management of individual housing loan>, before long, several state-owned commercial bank published the housing loan policy which inclined to individual consumption. China had formed individual housing mortgage market in its true sense.

The expanding speed of personal loan is very fast. People's Bank of China published <financial report of Chinese real estate market in 2004>. According to the data, to the first quarter of 2005, the loan balance of China real estate had reached 2765,060,000,000 yuan, in which, individual mortgage loan occupied most of the loan.  

4.5.5 The opening of secondary market

The market where real estate agency provides the commodity houses to the society is called primary housing market. The market which individual and work unit made transaction of each other is called secondary housing market. The primary market is called Incremental housing market while secondary market is called Housing stock market. What we said here opening and developing secondary housing market mainly means the public house which had been sold to workers go into the transaction market.

In the <the decision about deepening the housing system in city> of 1994, it regulated that the after 5 years of purchasing the public house, the houses can be circulated in the real estate market. Since the reform and opening, especially after 1992, housing market develops very quickly, but only in primary housing market. In secondary housing market, the development is very slow. It is not good for the positivity for the residences to improve their living condition of residences cannot circulate their houses in the market, this also obstruct the commercialization of housing.

Thus, opening the secondary housing market could improve the purchasing power of resident, and promote the real estate becoming new economic growth point. In the situation of high house price in the city, low income of workers, most of the family of city could not have the condition of purchasing a new house while remain the existing house of themselves.

138 <real estate finance report in 2004>
But in some big cities, the price of public house is not considered the area price difference when sold to the residents. Once these houses go into the transaction market, the area price difference will become the profit of some people, this will cause the unequal distribution, and bring the instability factor to the market. So it cannot be opened blindly the secondary housing market, but opening the market where has the sold public house steadily in the experimental units.

The experimental unit in Shanghai shows that, 35% of the household which had house prepare to trade in the market within 5 years. 81.8% of the families which had traded in the market increase the housing investment to buy a new house after sold the existing ones. The average increasing investment would be 120,000 yuan, the increasing area of living would be 36 square meters. 139

Through the opening of the secondary housing market, in cities and towns, it can increase 22,000,000 to 33,000,000 square meters of the housing demand, average 28,000,000 square meters in every year. If the housing price per square meter is 1500 yuan, it can increase sale 42,000,000,000 yuan. 140

4.5.6 The last bus of housing distribution system

The one of domino effect of housing reform is “catching the last bus” ---- every work unit with a large amount of fund purchased public house one after another, consumed most of the stocking houses in the market.

Before 1998, in the welfare the work unit provides, the most important thing is housing. Now the welfare housing system is cut, replaced with the monetary marketized economy mode. Although in some degree it fuels domestic demand, develops the economy. But since the salary of worker is relatively low at that time, to purchase a house in the market is not an easy thing for them. So many workers hope to catch the last bus to be assigned one publish house for the last time.

In one period, there is panic buying of houses from the work units. Many work units which are too late to build their welfare housings are purchasing commodity houses in the market for the workers, some units purchased hundreds of houses in one time. In the market which is always more supply than demand, the demand suddenly increased, in Beijing, the houses within 3 links were sold out very soon. In 1998, the trading volume of Lao8 District in Guangzhou increased 15,000 square meters comparing to 1996, the house price was also increased to 5615 yuan/ m², increased 483 yuan comparing to 1996. 141

139 Xie Jiajin, Gu Yunchang, The influence of macro economy from the housing system of 1998 and 1999, Ministry of Construction
140 Xie Jiajin, Gu Yunchang, The influence of macro economy from the housing system of 1998 and 1999, Ministry of Construction
141 Bu Fanzhong, <These years of our real estate>, Zhengzhou University Press
For catching the “last bus” of welfare housing distribution, people think of many different ways, someone even gets married fast in order to get a house.

In the background of overall housing reform, the practice did not always follow the design and the theory, in a very long period, different kinds of “welfare houses” went into the arena of history one by one. One kind of house which is constructed in the field owned by the work unit, sold to the workers with a low price, is called “economically affordable housing of work unit”. Behind the mask, it is still a kind of welfare housing. Experts point out that after 1998, government policy still leaves a defect of this kind of house. The reform designers proposed to develop “collecting fund building and cooperation building”, together with housing monetarism, to guarantee most of the low-income families’ demand for housing. But to the year 2003, different kinds of house in the name of economically affordable housing, constructed by the work unit and sold to worker of their own gradually form a scale. Thus in 2003, the State Council published <notice about promoting the healthy development of real estate >, this notice said that every work unit cannot in the name of collecting fund or cooperation to develop real estate house and management.

But the work unit which has capability to build their own house is also very powerful. As long as policy did not stop entirely the collecting fund house or cooperation house, it will happen all the same.

4.5.7 Pillar industry---- real estate industry

If housing reform is a strong stimulation, which push every one’s demand to the real estate market, leaded to an explosion of demand of purchasing house. Then the monetary policy of central government enhanced the purchasing power of residents. Besides, some preferential policy made a contribution too, like lowing the mortgage limit, lowing the interest, tax reduction… And the price policy to real estate developer was also opener than before, like encourage developers fluctuating along with market changes. Thus a market of its true sense formed.

Housing fund had further improvement, individual housing loans was more and more popular. To the end of 1999, in China the workers who was in the housing fund system was 69,000,000, had collected 140,900,000,000 yuan housing fund. As the adjustment policy of housing fund and commercial individual housing loan, in 1999, the personal housing accumulation fund loan was granted 15,800,000,000 yuan, the individual mortgage loans in People's Bank of China, People's Construction Bank of China, Industrial and Commercial Bank of China, Agricultural Bank of China was first beyond the development loan of developer, reached 74,600,000,000 yuan. To the end of 1999, the fore commercial banks had collected housing loan balance 126,000,000,000 yuan, increased 769 comparing to 1998. To the April of 2000, the housing loan balance in these
fore commercial banks increased to 200,000,000,000 yuan.\textsuperscript{142}

And in the promotion of housing system reform, in 1998, the investment kept the growth rate of 20\%.\textsuperscript{143}

table 4.6 growth rate of 1998 and 1997

| Development completed investment of commodity house | 21,179,400,000,000 (yuan) | 24% |
| Construction started area | 1,531,450,000 (m$^2$) | 51.33% |
| Floor space under construction | 342,918,900 (m$^2$) | 19.72% |
| Floor space completed | 124,801,600 (m$^2$) | 14.64% |
| Sale | 171,825,000,000 (yuan) | 41.22% |
| Sales area | 95,109,400 (m$^2$) | 38.08% |
| Individual purchasing in sales area | 73.73% | 7% |

table 4.7 The construction situation of city and town from 1991 to 1997

| Year | Residential construction investment\textsuperscript{145} | Residential construction completed area |
| Amount | Growth rate (%) | Amount | Growth rate (%) |
| 1991 | 52,323,000,000 | 142,321,500 |
| 1992 | 75,007,000,000 | 43.49 | 177,907,100 | 25.00 |
| 1993 | 175,223,000,000 | 133.39 | 226,798,600 | 27.48 |
| 1994 | 248,780,000,000 | 41.98 | 264,662,700 | 16.68 |
| 1995 | 299,372,000,000 | 20.34 | 289,598,100 | 9.44 |
| 1996 | 298,723,000,000 | -0.22 | 301,131,400 | 3.98 |
| 1997 | 297,711,000,000 | -0.34 | 311,970,500 | 3.60 |

table 4.8 The sell condition of commodity house of city and town from 1991 to 1997

| Year | Sales area of commodity house\textsuperscript{146} | Sale of commodity house |
| Amount | Growth rate (%) | Amount | Growth rate (%) |
| 1991 | 27,451,700 | 20,760,000,000 |
| 1992 | 38,122,100 | 38.87 | 37,985,000,000 | 82.97 |
| 1993 | 60,351,900 | 58.31 | 72,969,000,000 | 92.10 |

\begin{itemize}
\item \textsuperscript{142}“Media tracking—How is the Chinese reform?”, www.chinanews.com.cn, 2000/5/12
\item \textsuperscript{143}Xie Jiajin, Gu Yunchang, The influence of macro economy from the housing system of 1998 and 1999, Ministry of Construction
\item \textsuperscript{144}Xie Jiajin, Gu Yunchang, The influence of macro economy from the housing system of 1998 and 1999, Ministry of Construction
\item \textsuperscript{145}Xie Jiajin, Gu Yunchang, The influence of macro economy from the housing system of 1998 and 1999, Ministry of Construction
\item \textsuperscript{146}Same as above
\end{itemize}
The floor space completed in city and town in 1999 was more than 500,000,000 square meters, reached 560,000,000 square meters. The per capita living space reached 9.6 square meters.  

In the promotion through a series of reform policy, real estate had become a pillar industry in China, which drives the investment and consumption. In 1997, the average housing price was 1997 yuan/square meter. In 1998, it became 2062 yuan/square meter, increased 3.25% of last year. In 1997, the trading volume of commodity house in China was 90,000,000 square meters, while it became 120,000,000 in 1998. Also in 1998, the value added of real estate occupied 4.16% of GDP, played an important role in national economy, emancipated the productive forces.

From 1991, the real estate investment is increasing every year, since 1998, the speed was also rapidly increasing.

<table>
<thead>
<tr>
<th>Year</th>
<th>Real Estate Investment (billion)</th>
<th>Year to Year Growth</th>
<th>Residential Investment (billion)</th>
<th>Year to Year Growth</th>
<th>Portion of Residential and Real Estate Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>33.6</td>
<td></td>
<td>31.4</td>
<td>93.5%</td>
<td></td>
</tr>
<tr>
<td>1992</td>
<td>73.1</td>
<td>117.6%</td>
<td>35.6</td>
<td>13.4%</td>
<td>48.7%</td>
</tr>
<tr>
<td>1993</td>
<td>193.8</td>
<td>165.1%</td>
<td>55.0</td>
<td>54.5%</td>
<td>28.4%</td>
</tr>
<tr>
<td>1994</td>
<td>255.4</td>
<td>31.8%</td>
<td>128.7</td>
<td>134.0%</td>
<td>50.4%</td>
</tr>
<tr>
<td>1995</td>
<td>315.2</td>
<td>23.4%</td>
<td>105.3</td>
<td>-18.2%</td>
<td>33.4%</td>
</tr>
<tr>
<td>1996</td>
<td>324.7</td>
<td>23.4%</td>
<td>163.6</td>
<td>55.4%</td>
<td>50.4%</td>
</tr>
<tr>
<td>1997</td>
<td>317.8</td>
<td>-2.1%</td>
<td>215.1</td>
<td>31.5%</td>
<td>67.7%</td>
</tr>
<tr>
<td>1998</td>
<td>361.4</td>
<td>13.7%</td>
<td>208.2</td>
<td>-3.2%</td>
<td>57.6%</td>
</tr>
<tr>
<td>1999</td>
<td>410.3</td>
<td>13.5%</td>
<td>263.8</td>
<td>26.7%</td>
<td>54.3%</td>
</tr>
<tr>
<td>2000</td>
<td>498.4</td>
<td>21.5%</td>
<td>331.2</td>
<td>25.5%</td>
<td>66.5%</td>
</tr>
<tr>
<td>2001</td>
<td>634.4</td>
<td>27.3%</td>
<td>421.7</td>
<td>27.3%</td>
<td>66.5%</td>
</tr>
<tr>
<td>2002</td>
<td>779.1</td>
<td>22.8%</td>
<td>522.8</td>
<td>24.0%</td>
<td>67.1%</td>
</tr>
<tr>
<td>2003</td>
<td>1,015.4</td>
<td>30.3%</td>
<td>677.7</td>
<td>29.6%</td>
<td>66.7%</td>
</tr>
<tr>
<td>2004</td>
<td>1,315.8</td>
<td>29.6%</td>
<td>883.7</td>
<td>30.4%</td>
<td>67.2%</td>
</tr>
<tr>
<td>2005</td>
<td>1,590.9</td>
<td>20.9%</td>
<td>1,086.1</td>
<td>22.9%</td>
<td>68.3%</td>
</tr>
<tr>
<td>2006</td>
<td>1,942.3</td>
<td>22.1%</td>
<td>1,363.8</td>
<td>25.6%</td>
<td>70.2%</td>
</tr>
</tbody>
</table>

147 “Looking at the housing reform from 35 big cities in China.” www.people.com.cn, Xie Haoran, 2000, vol 8,
148 Bu Fanzhong, <These years of our real estate>, Zhengzhou University Press
149 <China statistical year book>
4.5.8 Economic growth spur due to the housing reform

The housing investment in 1996 was 519,854,000,000 yuan, occupied 7.58% of GDP. Comparing to other developing countries, this portion was high. In the several years around 1998, the construction amount was high, the amount of every year was more than 300,000,000 square meters, completed investment occupied 12% of the total investment in fixed assets. The total housing investment of the whole society occupied more than 20% of the total investment in fixed assets, over 7% of the GDP. In 1996, the value added of architecture industry was 453,030,000,000 yuan, occupied 6.6% of GDP.
Residential fixed investment in city and town is 519,854,000,000 yuan, the value added of housing industry was 153,824,000,000 yuan, occupied 2.24% of the GDP.  

Housing construction can also drive the development of related industry. Architecture industry consumes 15% of the total consumption of materials. The steel consumption in architecture industry occupied 14% of the total steel consumption. The concrete consumption in architecture industry occupied 47% of the total concrete consumption. The glass consumption in architecture industry occupied 40% of the total glass consumption. The wood consumption in architecture industry occupied 20% of the total wood consumption. If counted the material of infrastructure related to the housing construction and the public service, the consumption of steel, concrete, glass and wood is far more than the statistic above. Besides, the new housings need in every year 4,000,000 kitchen& bath equipment, if half of the residents purchase new furniture, it needs 2,000,000 set of furniture too. So we can say that the development of housing constructions and the real estate market could alleviate the current disparities of unsalable products.

4.5.9 Land bid invitation, auction and listing system

In a very long time since 1949, the land use system was fee, indefinite duration administrative transfer system, the system made the land resource allocation unreasonable, low efficiency, lots of waste and confusion of land property. This became the block of development. After reform and opening, to overcome the problem of this system, it practiced some reform. Including the land transferring system, as we said before, began on 12th, April, 1988. It said “the land use right could be transferred according to the law”, it is a paid system within a definite time. However, this system is still existed some problems.

For this reason, Ministry of Land and Resources published No.11 order in May, 2002, practiced <regulation of land bid invitation, auction and listing system for transfer state owned land>, regulated clearly that the profit-oriented land must be transferred by land bid invitation, auction and listing system. In 2004, Ministry of Land and Resources published No.71 order, <notice about continuing the law enforcement supervision work of land bid invitation, auction and listing system for profit-oriented land. It regulated that from 31th, August, 200, all of the profit-oriented land must be transferred by land bid invitation, auction and listing system. This also shows that the land transferring fee system had been abandoned.

4.5.10 The intense regulation and control of real estate market in China from 1999 to 2003

150 Xie Jiajin, Gu Yunchang, The influence of macro economy from the housing system of 1998 and 1999, Ministry of Construction
151 Xie Jiajin, Gu Yunchang, The influence of macro economy from the housing system of 1998 and 1999, Ministry of Construction
Later in 1999, Chinese government still encouraged individual purchasing houses by practice positive fiscal policy, free of individual income tax and business tax. To the year of 2000, the individual and bank which had housing accumulation fund loan is also free of tax. These financial and tax policy created large effect demand. The continually cut of interest rate, together with the lowing the mortgage limit, which is even lower to 30%, 20% or 0%.

Thus form 1999 to 2003, it is the high speed growth period of Chinese real estate. The peak point was in 2003, when the problem of high housing price, unreasonable investment construction began to reveal, leaded to severe social contradictions. And real estate generally became the focus of the society. People's Bank of China thought that in part of areas the investment is too high. In June, 2003, the No. 121 Document was published, it pointed out to strengthen the real estate credit, control the granting of the loan, increased the down-payment proportion of second house.

4.6 From 2003 to 2007

4.6.1 The two documents in 2003

After 2003, the real estate investment increased with high speed, also was the real estate price. The contradiction of unreasonable supply structure stood out, the real estate market was out of order. Thus the central government practiced several policies to regulate and control the real estate market. From the second half of 2003, the central government controls the overheated investment of real estate from two aspects of land and credit. From the second half year of 2005, central government emphasized to regulate and control the supply and also the demand, to stabilize the housing price through several policies. From the second half year of 2007, the focal point of central government shifted to building and completing the low-renting system, improving and regulating the economically affordable housing, to control the soaring of real estate price.

The new round of real estate regulation and control began from 2003 to prevent the overheated economy. It mainly aimed at controlling the high speed fixed investments, and the also the real estate investment. In the beginning of 2003, when it was still in the phenomenon of cultivating the housing industry to a new growth point, in June, People's Bank of China issued <notice about reinforcing the management of real estate credit operations> (in the following paragraphs, it is for short as the No.121 document), to strengthen the management of real estate credit, control the granting of land reserve loans, regulate the purpose of working capital loans of construction enterprises, reinforce the management of individual loans... The No.121 document affected a lot to the real estate market, lead to some real estate enterprises fund chain breaking, is considered the most affective document ever to the real estate market.
Later, in August, 2003, the State Council issued <notice about promoting the healthily development of real estate > (in the following paragraphs, it is for short as the No.18 document), continued to emphasis the pillar industry of real estate, strengthen the credit effort to the enterprise and project which matches condition. At the same time, the No.18 document paid attention to the over speed of investment and price growth in real estate market, asking for achieving the balance of supply and demand of market, reasonable structure, stable price.

The content of No.18 document is a comprehensive one, the basic tone is to develop real estate market, but not any essential method to control the real estate price and over speed investment growth. This reflected the contradiction of central government---- fear of real estate price and investment growing too fast but hoping they can boost the economy to grow.

4.6.2 Overheating of economy in 2003 and 2004

From the second half year of 2003, it showed the phenomenon of overheated growth of housing price. Especially in long triangle areas like Shanghai, Hangzhou... the amount of increase was over 10%. The reason of this phenomenon was lack of appropriate system and mechanism. Firstly, the real estate market was open, but the many of the system were not completed, market mechanism cannot play a role effectively. Secondly, most of the land transferred in a treaty, and could not show the real land price, the land resource is not used in a reasonable way. These reasons made it hard to control of the market.

Besides, real estate industry has a high degree of association, the increasing of real estate price also bring the growth of large demand of construction materials, and the growth of their price. The material price like steel and concrete also grew fast. The supply of coal, electricity and oil were shortage. The investment of real estate in 2003 was increased 30.33% comparing to 2002, was the fastest year after the regulation and control of last round. In the first quarter of 2004, the year-on-year growth fixed investments is 43%, increased 15.2% comparing to last year.

Many experts called the year of 2004 a turning point of macro-control. After that, government published several policies to macro-control the real estate market, but from the aspect of market, the actual effect was not so good, the policies and regulations were not have good effect on 2004, the housing price could not be control, either.

The macro control of 2004 made the real estate investment rate decreased from 50.2% to 28.1%.

4.6.3 The macro-control of the overheating economy in this round

To build complete readjustment policy of land:

Strengthening the credit management:

In August, 2004, China Banking Regulatory Commission published< the instructions about management of real estate loan risk of commercial bank>, made closed specification of risk management of land reserve loan, housing developing loan, personal housing loan and commercial using loan, regulating that the capital of real estate enterprise for developing project should be more than 35% of the total capital, while in No.121 document, the limit was 30%. In September, 2007, People's Bank of China and China Banking Regulatory Commission published <notice about strengthening credit management of commercial real estate>, reiterated some regulations of No.121 document and < the instructions about management of real estate loan risk of commercial bank>.

Raising the threshold of Domestic enterprises investment

To strengthen the macro-control, in April, 2004, the State Council published <notice about adjusting capital fund portion of fixed investments in some industries>, changing the capital fund portion of real estate project from 20% to 35% or more than 35%, while in No.121 document the portion was 30%. In June, 2006, General Office of the State Council transmitted the <suggestions about strengthening the control of fixed investments and controlling new construction projects>, asking for taking strong methods to control the over-speed growth of fixed investments. In January, 2007, General Office of the State Council published <notice about strengthening the management of standardizing new construction projects>, asking for controlling the new construction from beginning.
Limiting the overseas hot money into the commodity housing circulation:


4.6.4 The effect of economy overheating to housing price

After 2004, some cities like Shanghai, Hangzhou and Nanjing increased quickly, amount of increase ranked first in China. After, other main cities of China increased quickly too. The price of new commodity houses in 2004 increased 15.02% comparing to the last year. In which, commodity residential house was increased 15.99%, comparing to the amount of increase of last few years, the housing price was apparently growing too fast.

<table>
<thead>
<tr>
<th>year</th>
<th>Beijing</th>
<th>Shanghai</th>
<th>Shenzhen</th>
<th>Guangzhou</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>5280</td>
<td>3096</td>
<td></td>
<td>4972</td>
</tr>
<tr>
<td>2003</td>
<td>4456</td>
<td>4989</td>
<td>5680</td>
<td>3888</td>
</tr>
<tr>
<td>2006</td>
<td>8792</td>
<td>8237</td>
<td>9230</td>
<td>6373</td>
</tr>
<tr>
<td>2007</td>
<td>12436</td>
<td>8253</td>
<td>13369</td>
<td>8507</td>
</tr>
<tr>
<td>2009</td>
<td>14362</td>
<td>15467</td>
<td>15111</td>
<td>9346</td>
</tr>
</tbody>
</table>

This was because in the real estate control before 2005, the policy mainly aimed at controlling the over fast growth of real estate investment, not much on stabling the housing price. Especially in first quarter, in some areas the housing prices were rising like a competition. In this back ground, real estate market control shifted from one way of supply control to double way of supply and demand control, just for stabling the house price.

In March, 2005, People's Bank of China issued <notice about adjusting housing credit credit

152 Chief editor: Zou Dongtao, <the 30 years of real estate system reform and market development>, Social Sciences Academic Press
133 <China statistical year book>
policy of commercial bank and excess reserve deposits>, cancelling preferential policy of housing loans, the regulation began to deviated to demand. In the same month, General Office of the State Council published <notice about practically stabling the housing price>, realized the housing price of some area was rising too fast, affecting the stable development of economy and society. It proposed 8 methods (be short of “national eight”) to restrain the price growth, to raise the problem of the housing price to the political level, asking local governments taking the responsibility of stabling the housing price. If the housing price was too high in the area, the local government must be held responsible for that.

The methods of “national eight” were too stick to the principle, the local government when implementing it, had some concerns. So it could not make the real estate price decrease a lot and affect the real estate market. In April, 2005, the standing committee of State Council emphasized that solving the housing price problem must be considered as an important mission of macro control. It proposed the new 8 methods of guiding the real estate market and strengthening the macro control (be short of “new national 8”). The official document of “new national 8” was the <notice about stabling the housing price transmitted by General Office of the State Council> on 9th, May. The notice asked for dual-directional regulation of demand and supply, suppress real estate speculation, control purchasing house for investment, encourage the construction of normal commodity residential house and economically affordable house, guiding the housing consumption reasonably, promoting the stability of house price and healthy development of real estate market. These 8 methods canceled the preferential policy to the real estate market, and proposed some severe methods like collecting full business tax when transferring the new house within 2 years, prohibiting transferring the property under construction, practicing real name housing purchasing system. On 27th, May, State Administration of Taxation, Ministry of Finance and Ministry of Construction published <notice about strengthening the tax administration of real estate market>, refining the <suggestions about stabling the housing price> by ministries like Ministry of Construction. In October, State Administration of Taxation published <notice about implementing tax integration management of real estate>, emphasized on the individual income tax of second hand house transaction.

4.6.5  The macro control policy of 2005---- “new national 8”

The year of 2005 became the year of “macro control” in real estate market. After National People's Congress and Chinese People's Political Consultative Conference, many policies make the whole real estate be caught unprepared. People's Bank of China raised the mortgage rates and the down payment portion, which means the controlling policy is about to begin.

On 27th, April, premier Wen Jiabao proposed to take further step to strengthen the real estate market control, and proposed 8 methods, which is called “new national 8”.

“New national 8:”
1. Strengthen planning regulation and control, improve commodity house structure
2. Strengthen land supply regulation, strict land management
3. Strengthen the regulation and control of normal commodity house and economically affordable housing, guarantee the effect supply of low price, small unit housing
4. Completing low renting housing system of city and town, guarantee the housing demand of the low income family
5. Control the real estate market using economic means like tax... especially strengthen the adjustment dynamics of real estate transaction
6. Strengthen the financial regulation
7. Rectify and regulate the market order
8. Strengthen market forecast and early warning, complete information disclosure system

“National 8”:
3. Pay high attention to stable the housing price
4. Be responsible for stabling the housing price, raise the problem to the political level, provincial government is the director of it, if the housing price is out of control and grows too fast, the relevant must be investigated
5. Adjust the housing structure, adjust the land supply structure, increase the supply of normal commodity house and economically affordable housing, supervise and urge the construction of them
6. Control the demand of Passivity housing, mainly control the amount of remove
7. Lead the citizens reasonable consumption demand
8. Survey the operation of real estate market in all ways
9. Implementing positively all policies and methods of controlling the housing supply and demand
10. supervise and urge the practice of stable the housing price

The real estate market regulation and control of 2005 is mainly for controlling the housing price. This leaded to the volume atrophy in a short period of second year, the demand and supply stayed a wait-and-see state, the impetus of growing housing price was restrained for a while. However, the problem was not solved effectively, and the price bounced before long.

In 2005, the year to year growth of price of new construction housing was 16.72%, more than that of 2004. In which, the year to year growth of the commodity house was 15.24%, less than that of 2004. Especially in the beginning of 2006, the housing price of the cities like Shenzhen, Beijing and Guangzhou grew by a large margin, the medium and low-income population could not afford to purchase, which increased the instability factor of society.154

In the end of 2005, the real estate investment increased 19.8%, the year to year growth of speed was less 8.2% comparing to last year. The price of commodity house increased 7.5%, amount of increase was less 3.6% comparing to last year. The housing price in cities

154 Chief editor: Zou Dongtao, <the 30 years of real estate system reform and market development>, Social Sciences Academic Press
4.6.6 The macro control policy of 2006----“national 6”

However, in the beginning of 2006, the housing price problem came again. One is the bounce of real estate investment speed, the investment speed of first half year was increased 4.4% comparing to last year. Second is the unreasonable structure of demand and supply, the portion of economically affordable housing for low- and middle-income families was still low, lack of supply. Third is the housing price in cities like Shenzhen, Beijing, Guangzhou Soared up, medium and low-income population could not afford it. This made in a year of 2006, the policies about controlling the housing price came out one by one, and made 2006 also became the year of “macro control” in real estate market. But the phenomenon is more control, higher price.

For the problems like housing price growing too fast, unreasonable housing supply structure, real estate market out of order... in May, 2005, the standing committee of State Council emphasized to guide and control the real estate market for a further step. According to the present problems, it practiced 6 methods (be short for “national 6”). The official documents of these 6 methods were the <notice about adjusting the housing supply structure and stabling housing price transmitted by General Office of the State Council> on 24th, May, 2006. The notice asked the local government to be responsible for the problems and Put them on the agenda.

To practicing “national 6”, relative departments published notice to strengthen the control form tax policy, credit policy and market supervision. In May, 2006, State Administration of Taxation published <notice about strengthening the collection and management of housing business tax. People's Bank of China published <notice about adjusting housing credit policy>, said that the down-payment ratio of individual mortgage is no less than 30%. From 1st, June, the supply and develop area of housing which is less than 90 square meters must more than 70% of the planned area. Guarantee the supply of low price normal housing through making limit of the unit and price.

In July, 2006, Ministry of Construction, China's Reform and Development Commission, People's Bank of China, the State Administration for Industry and Commerce, Administration of Foreign Exchange published <suggestion about regulating and managing the foreign capital into the real estate market>, regulated that only foreign-investment enterprise can purchase fixed assets of non-self use. In August of 2006, General Office of Commerce Department published <notice about implementing and practicing “suggestion about regulating and managing the foreign capital into the real estate market”>, explicated the relevant problems of the examining, approving and management of foreign-investment enterprise. In September, State Administration of Foreign Exchange and Ministry of Construction published <notice about standardized

155 “General evaluation of macro control policy of real estate market from 2004”, State Council Development Research Center
foreign exchange control in the real estate, explicated the relevant problems of foreign exchange control.

From 2004 to 2007, although the government suppressed the development of real estate from supply, and continued to publish policies like “national 8”, “new national 8”, “national 6”... continued to raise required reserves, however, the housing price could not stop to grow fast, why? The reason may be that it is the supplier that the policy aims to, but the supplier has a strong power of rent-seeking, it can survive in the crack of the policy. Until on 29th, September, 2007, People’s Bank of China and China Banking Regulatory Commission published <notice about strengthening the credit management of commercial real estate> (be short for No.359 document), the notice asked for the purchasing of second house with a mortgage, the down payment must be more than 40%, interest rate must be 1.1 times of benchmark interest rate, the mortgage loan and non-designated loan and revolving Credit could not be granted. For the developers, the loans could be granted until the capital fund of the project reached 35%. In December, 2007, < Supplement notice about strengthening the credit management of commercial real estate> was published, to explicit the judging Standards of second house. After the practicing of the notices, the speculation from developing to consuming of real estate market began to decrease.

In September, 2007, the housing prices of cities like Shenzhen, Guangzhou although continued to grow, the trading volume decreased sharply. This made people think that the price would not going to increase and the expectation began to change. In October, the price of top grade commodity house began to decrease, some real estate agency faced to close. After that, the fall of the price happened in cities like Beijing and Shanghai...

4.6.7 The macro control policy of 2007---- security housing system

Intervention the market through macro control could not solve the market failure problem of housing. Sometimes the macro control makes the price higher and higher, for that the residents complain a lot.

In 1998, <the notice about deepening the housing system reform and accelerating the construction of housing> raised that, the lowest income family is provided the low rent housing by the government or work unit. But after that, this suggestion did not practiced effectively. On 31th, August, 2007, the State Council published <suggestion about solving the housing problem of low income family in cities> (be short for No.24 document), it pointed out that housing problem is an important for the people's livelihood, the work of solving the housing problem for the low income family must be paid attention to, building the system which is focus on the low rent housing and supplements with multi channels. Making sure the housing guarantee fund has its right purpose, bringing the works of solving the housing problem for low income family into the evaluation of achievements in one's official career, investigate and affix the responsibility for the
relevant leaders when the works are not good. It is the first time that the low rent housing became the center of housing guarantee system, at the same time, the economically affordable housing is set limited property.

The No.24 document is considered the shift of the center of the real estate market macro control, is the symbol that government separates the too fast growth of the housing price with the living problem of low income family. For the top grade commodity house, the regulation relies on the market itself, using the demand and price to balance, prevent the speculation and the real estate bubble to make the market confusion. According to No.24 document, several policies to solve the problem came out in succession. In October, 2007, Ministry of Finance published < management methods about the capital of low rent housing construction>. In November, 2007, 9 departments published < safeguard mechanism of low rent housing>, and 7 departments published < management methods about the management of economically affordable housing>.

According to No. 24 document, in 2007 various regions in China began to investigate the housing conditions of low income family, building generally the housing archives for the low income family. Most cities built and completed the low rent housing system, improved and standard the economical affordable housing system. The guarantee fund goes into its purpose generally, the construction land has been guaranteed. To the end of November, 2007, the capital for the low rent housing was 15,400,000,000 yuan, in which, the capital from January to November was 8,320,000,000 yuan, more than the total capital before---- 7,080,000,000 yuan. Through the new construction, purchasing and transforming, the resource of low rent housing was increased.\textsuperscript{156}

\begin{table}[h]
\centering
\begin{tabular}{|c|c|c|c|c|}
\hline
& new space under construction (m²) & Proportion of commodity house in same period (%) & Investment (yuan) & Proportion of commodity house in same period (%) & Sales area & Proportion of commodity house in same period (%) \\
\hline
1997 & 17,210,000 & 15.65 & 18,500,000,000 & 12.05 & 12,120,000 & 7.82 \\
1998 & 34,660,000 & 20.83 & 27,100,000,000 & 13.01 & 16,670,000 & 20.78 \\
1999 & 39,700,000 & 21.12 & 43,700,000,000 & 16.56 & 27,010,000 & 22.69 \\
2000 & 53,130,000 & 21.77 & 54,200,000,000 & 16.38 & 37,600,000 & 20.17 \\
\hline
\end{tabular}
\caption{Developing and sale of economically affordable housing form 1997 to 2008\textsuperscript{157}}
\end{table}

\textsuperscript{136} Statistic from Ministry of Construction
\textsuperscript{137} <China Statistical Yearbook>, from 1997 to 2008
<table>
<thead>
<tr>
<th></th>
<th>1999-2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>year</td>
<td>0</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>new space under construction (unit)</td>
<td>25,000</td>
<td>53,000</td>
<td>165,000</td>
<td>380,000</td>
<td>1,710,000</td>
</tr>
<tr>
<td>Purchasing and transforming Capital (yuan)</td>
<td>4,740,000,000</td>
<td>2,340,000,000</td>
<td>7,700,000,000</td>
<td>35,400,000,000</td>
<td></td>
</tr>
<tr>
<td>Granting rental subsidies (household)</td>
<td>2,490,000</td>
<td>2,920,000</td>
<td>2,920,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4.6.8 The macro control policy since 2008

Since 2008, the housing policy in China is interweaving the security housing system with market regulation and control, the development of housing market focuses on more the people's livelihood demand, in November 2008, to cope with the global financial crisis,
Chinese government announced putting 4,000,000,000,000 yuan for stimulate domestic demand, in which 100,000,000,000 yuan for investment of security housing plan. On 12\textsuperscript{th}, November, Ministry of Housing and Urban-Rural Development announced a security housing investment plan of 900,000,000,000 yuan. On 21\textsuperscript{th}, December, \textit{<suggestion about accelerating the healthy development of real estate market>} published by the State Council put forward several policies to stable the market and promote the investment.

In June, 2009, Ministry of Housing and Urban-Rural Development published \textit{<plan for low rent housing from 2009 to 2011>}, announced that hoping to solve the housing problem of 7,470,000 difficult households within 3 years. In October, 2009, \textit{<suggestion about supporting security housing experimental unit through housing provident fund>} was published, to use the housing provident fund in the construction of security housing.

\begin{quote}
In 2009, the investment plan of low rent housing construction of central government was 33,000,000,000 yuan, but according to the report of Standing Committee of the National People's Congress, in the first half year of 2009, the complete investment of low rent housing was 31,000,000,000 yuan, increased 530,000 households for having housing rental subsidies. To August, 2009, the low rent housing project started working 1,260,000 units, completed 40,000,000,000 yuan investment, increased 1,540,000 households for having housing rental subsidies. The security housing of 100,000 households in shanty town of mine lot, 157,000 households in shanty town of forest had started working. The dangerous buildings of 162,000 households in agricultural reclamation, 494,000 households in rural area, and 75,000 households of nomad had been transformed.\textsuperscript{159}
\end{quote}

\section{4.6.9 The achievement of housing reform to 2008}

\begin{quote}
The increasing housing demand made the housing shortage of China alleviated a little. In 1978, the housing stock area of city was just 1,400,000,000 square meters, in the end of 2006, it reached 11,290,000,000 square meters, about 3 times of 1999, 8 times of 1978. From the aspect of per capita living space, since 1978, it increased 0.7 square meters every year, and reached 28 square meters in 2008, 4 times of 1978. In which, from 1978 to 1987, it increased 0.6 square meters per year, from 1988 to 1997, it increased 0.48 square meters per year, after 1998, it increased nearly 1 square meters per year. According to \textit{<statistical communiqu of housing general situation of city and town in 2005>}, the housing construction area per household in city and town of 2005 was 83.2 square meters, in which east of China 85.32 square meters, middle of China 77.96 square meters, and west of China 85.75 square meters. Worth complete residential was 0.85, in which east of China 0.89, middle of China 0.79 and west of China 0.83. Complete sets of residential building area in town and city were 8,684,000,000 m\textsuperscript{2}, and complete set ratio was 80.64%.\textsuperscript{160}
\end{quote}

\begin{flushright}
\textsuperscript{159} Chen Jie, “the Provision and Financing of Social Indemnificatory Housing in China: Retrospect and Prospect”
\textsuperscript{160} \textit{<Statistical communiqu of housing general situation of city and town in 2005>}
\end{flushright}
After individual purchasing became the main stream in real estate market, home ownership rates increased a large amount. In 1995, the sample survey of Chinese Academy of Social Sciences showed, the housing structure was still based on public housing, which occupied 57% (public house of working unit 46%, others 11%), while private house occupied 43%. In the 43%, owner-occupied homes occupied 41% (commodity house brought by per self 31%, Self-built private house 6%, old private house 4%), rent house occupied only 0.8%.¹⁶¹

But according to <the statistical communiqu of housing general situation of city and town in 2005>, home ownership rates of city and town increased from 72% in 2002, to 80.77% in 2004, to 81.62% in 2005. East of China was 82.58%, middle of China was 79.69%, west of China was 81.93%. besides, according the <real estate market report of China (REICO)> of All-China Federation of Industry and Commerce, in 2005, the home ownership rates of registered permanent residence in city had reached 80.5%, in which self-built house 19.4%, commodity house 19.6%, economically affordable house 9.1%, purchasing public house 32.3%. The rate of rent house was 14.9%, in which rent public house 12.3%, rent commodity house 2.6%.¹⁶²

According to the central financial expenditure final statements of 2009, the financial aid for security house granted by the central finance in 2009 was 55,056,000,000 yuan, was 302.7% of last year. Besides according to the national financial expenditure final statements of 2009, the financial aid for security house granted by the national finance in 2009 was 72,597,000,000 yuan, was 313.3% of last year. However, local finance just invested 17,541,000,000 yuan, from which we could see that the enthusiasm for the security house was not high for local government.¹⁶³

4.6.10 The problem of housing price

Rising trend of housing price¹⁶⁴

¹⁶¹ <Statistical communiqu of housing general situation of city and town in 2005>
¹⁶² <Statistical communiqu of housing general situation of city and town in 2005>
¹⁶³ Chen Jie, “the Provision and Financing of Social Indemnificatory Housing in China: Retrospect and Prospect”,
¹⁶⁴ Statistic from State Statistics Bureau
The average house price was 4600 yuan/square meter in China in 2009, increased 1000 yuan/square meter of last year.

### Table 4.13 Increase of sale price of house

<table>
<thead>
<tr>
<th>Year</th>
<th>Increase of sale price of house</th>
<th>Increase of sale price of New house</th>
<th>Increase of sale price of second hand house</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>1.5%</td>
<td>1.3%</td>
<td>2.4%</td>
</tr>
<tr>
<td>2008</td>
<td>6.5%</td>
<td>7.1%</td>
<td>6.2%7.4%</td>
</tr>
<tr>
<td>2007</td>
<td>7.6%</td>
<td>8.2%</td>
<td>5.2%</td>
</tr>
<tr>
<td>2006</td>
<td>5.5%</td>
<td>6.4%</td>
<td>8.4%</td>
</tr>
<tr>
<td>2005</td>
<td>7.6%</td>
<td>8.4%</td>
<td></td>
</tr>
<tr>
<td>2004</td>
<td>9.7%</td>
<td>9.4%</td>
<td></td>
</tr>
<tr>
<td>2003</td>
<td>4.8%</td>
<td>5.7%</td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td>3.7%</td>
<td>4.0%</td>
<td></td>
</tr>
<tr>
<td>2001</td>
<td>2.2%</td>
<td>1.9%</td>
<td></td>
</tr>
<tr>
<td>2000</td>
<td>1.1%</td>
<td>1.4%</td>
<td></td>
</tr>
</tbody>
</table>

165 Statistic from State Statistics Bureau
table 4.14  housing price-to-income and rent-to-income ratio

<table>
<thead>
<tr>
<th>city</th>
<th>housing price-to-income ratio</th>
<th>Rent-to-income ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beijing</td>
<td>11</td>
<td>540</td>
</tr>
<tr>
<td>Shanghai</td>
<td>16</td>
<td>500</td>
</tr>
<tr>
<td>Shenzhen</td>
<td>16</td>
<td>480</td>
</tr>
<tr>
<td>Guangzhou</td>
<td>16</td>
<td>327</td>
</tr>
</tbody>
</table>

Housing price-to-income ratio:
This refers to housing price-to-average family income ratio. According to the international practice, the ratio is reasonable from 3 to 6. If mortgage is considered, the housing consumption should be occupied less than 30% of family income.

Rent-to-income ratio:
This refers to the ratio of housing price per square meter and rent per square meter, shows the investment return by renting houses. Renting the house usually shows the real housing demand, so the relation of two could show the running state of real estate in the area.

table 4.15  Average income of residents of city and town

<table>
<thead>
<tr>
<th>year</th>
<th>Average income of residents of city and town (yuan)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>5425</td>
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166 Statistic from State Statistics Bureau
167 Statistic from State Statistics Bureau
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Proportion of cost:

From the chart we could see that in the industry chain of real estate of China, although the developer has large profit, but most of the profit flows into the pocket of local government through transferring the land. “If you buy a house of 30000 yuan/square meter, the 20000 yuan/square meter is used to buy the land use right.” Lang Xianping, a well-known economist said.
After the tax reform from 1993 and 1994, we practiced system of tax distribution. The biggest channel for local government to increase the finance is in land transferring. Result of survey shows, the government is the biggest beneficial owner of high housing price. In the housing price, land transferring fee occupied 23% to 27%, if tax included, the portion the local government gets from the house price is more than 70%. And most of the profit developer get is always used for purchasing other land. Thus we could understand why many of the macro control policy suffered “soft landing” in local.
5. From the perspective of urbanization to see the real estate market in China

5.1 Introduction of interaction between Real estate and the urbanization process

5.1.1 The process of urbanization impact on the real estate development

In the process of urbanization, the development of real estate cannot be divorced from the independent development of other industries of the city, and it will be affected by a variety of factors. Along with the conversion of population structure, industrial structure and demand structure of urbanization process, the urbanization process is a blend of multiple factors, which contains demographic factors, factors of economic development, government action, it is these factors directly or indirectly influence on the development of the real estate industry. Point of the article 'Real estate development and urban construction' (Xu Bo, Wu Xiaoyan, 2003) is urbanization effectively promoted growth of the real estate development: urbanization and urban construction provides a good opportunity for development of real estate. Urbanization construction expands the scale of real estate development, and promotes the coordinated development of the real estate industry. In "Urbanization with Chinese real estate industry" (Jiang Jianlin, 2003) it is said that urbanization and real estate should be as the "twin brothers", the reason for this, mainly because residential house is the functional elements of city, but also the most expensive means of subsistence, which are closely related and mutually reinforcing.

The urbanization implementation depends on the healthy development of the real estate industry, and process of urbanization needs to be provided a large number of ordinary residential and urban life supporting facilities the by real estate industry. Coordination of Real estate and urban development help speeding up the process of urbanization, urbanization is the inherent power of real estate development.

The city's economic development is the basis of the urbanization, the backing of real estate development. With the continuous advance of the process of industrialization, the industrial production gathered to the town to promote the development of urbanization. At the same time, urbanization, the release of domestic demand led to the tendency of population and capital to the urban agglomeration, concentration of production brought the concentration of residence, and promotes the rise of real estate. Urbanization mainly includes two aspects: First, the construction of urban infrastructure, to boost the city's economic development through large-scale urban infrastructure. Secondly, basic housing construction and housing industry is as a leader to bring the whole economic development.

Urbanization is the process of population concentrate into cities. Proportion of the urbanization rate is the total population of urban residents. The main body of the demand for real estate is people, therefore, the quantity and quality of people directly determine the degree of demand for real estate, and thus have a great impact on real estate prices. Specifically, the impact of demographic factors on real estate prices expressed as population, population density and population quality.

168 Xu Bo, Wu Xiaoyan, 2003, Real estate development and urban construction
169 Jiang Jianlin, 2003, Urbanization with Chinese real estate industry
The relationship between population and real estate prices are positively correlated. Population growth goes along with the urbanization process. The urban population growth will cause rising demand for housing, and thus boost real estate development and rising house prices. The population density is a relative indicator of population in areas of high population density, general real estate supply and relative lack of demand, the region's real estate price level is getting high. Meanwhile, the high population density is possible to stimulate the development of commercial and service industry, which will increase the price of land. However, in areas with high population density, the level of comfort of the living environment has been affected, so also has the potential of lower land prices.

Social civilization, the average education level of population, the cultivation of the residents can also indirectly affect real estate prices. Well-educated Resident would require high level of living environment, real estate prices in general will increasingly high. Regions with lower quality of residents, formed in a complicated way, poorly ordered, the real estate prices will be relatively lower, especially the price of residential land will be reduced.

5.1.2 The real estate development impact on the process of urbanization

'Real estate and urban development' (Zhang Lixin, 2003) discussed from the perspective of relationship between real estate and urban economic development, urban planning, sustainable urban development and urban social, saying that the real estate industry will promote the urbanization raise the level of the city's sustained economic development, accelerated urbanization, will lead the all-round progress of the city and the whole region. Closely related to the real estate industry and urban construction, improvement of people's living standards, will together with the entire city and all-round development. "The real estate industry is expanding agent urbanization" (Guan Jian-Feng, 2003) pointed out that “the real estate industry has become a barometer of China's economic development, expanding agent of urban development”170. As urban land development and infrastructure construction tasks increasingly heavy, the real estate industry should be compatible with the urbanization process, in accordance with the unified planning, rational distribution, comprehensive development, supporting the construction of the mode of operation to complete its historic mission. Real estate stimulates economic growth, creates a beautiful landscape of the city, improves the living environment, and expands employment channels.

There are two main factors for the migration of rural population moving to urban: First, the city can provide numerous employment opportunities. Second, there are more superior situations in city compared to rural working and living environment. The real estate industry is directly or indirectly impacted these two motives, so that a large number of rural population get urbanization. This role is to: first, the real estate industry itself powerfully absorbs rural surplus labor force. The real estate industry and with its close-knit construction is a labor-intensive industries. According to statistics, in Hong Kong, real estate companies accounted for 3.2% of the

170 Guan Jian-Feng, 2003,"The real estate industry is expanding agent urbanization",< China real estate information >
total number of enterprises, while employment has accounted for 8% of the total. Mainland China’s real estate industry started late, however, to 2003, the number of real estate development enterprises reached 37,123, persons engaged in real estate development reached 120 million, while the number of construction employment is as high as 3893 million. Of which 3000 million is supply by the rural surplus labor. Surplus of rural labor into the real estate industry speeds up the urbanization of the rural population. Second, development of real estate not only supply the surplus rural labor employment opportunities, while also continue to provide the required factors of production and living elements of rural urbanization. Residential accounted for more than half of the annual development of the housing real estate. And public places of the people for the rest and recreation, urban greening are all concluded in real estate development. Real estate continues to improve urban living and working conditions to attract more rural to urban migration.

At the same time, real estate development can improve the quality of urbanization. First, real estate development broad the urban space, enhance the urban grade, size and function. The real estate development promote the adjustment and expansion of urban spatial structure, especially the replacement of urban land resources, effectively strengthen the functions of cities, expanding the size of the city, improve the grade of the city, improve the quality of the environment. Second, the real estate industry can open up funding sources to promote the construction of urban infrastructure. The real estate industry is a high value-added industry, open up a stable funding channel for the city’s transportation, post and telecommunications, water, electricity, coal, public facilities, culture, education and health welfare. Urban construction funds gradually incorporated into the comprehensive development, and coordinate the promotion of a virtuous cycle of urban construction, urban renewal and real estate development and organic coordinated simultaneously, will be able to give full play to the real estate resource efficiency, greatly increasing the urban construction funds in order to push on the construction of urban infrastructure.

5.1.3 Relationship between urbanization and real estate development trends

Chinese scholar Yang Bo mentioned the simultaneous development of the law of real estate and urbanization. 'Relationship between the process of urbanization and real estate development (Zhou Hong, 2005 (7)) Analysts also believe the long-term trend of the S-shaped curve of urbanization and real estate development curve are going with the same purpose. Real estate development follows the general law of development of the industry, goes through four phases as following figures: initial phase, growth phase, maturity phase and decline phase. In the initial phase, the real estate industry develop at a slow pace, this stage is to lay the foundation for rapid development of next stage. In the growth stage, the real estate industry develop rapidly, its growth rate greatly exceeds the average growth rate of the whole industrial system, and its market significantly expand the demand, rapid increase in the proportion of the output of the real estate industry show in the whole industrial system. At maturity phase, real estate development speed will slow down, and the market capacity of its output is relatively stable. In the decline phase, due to advances in technology, the market launch of new industries which can

take off old industries, the old industry would exit market economic step by step, which reflect on the industry cycle, the performance curve showing a continuous decline trend.

![Image 1](image1)

**Figure 5.1 Process of real estate market**

![Image 2](image2)

**Figure 5.2 Process of real estate market**

The synchronization stages of the real estate industry and urbanization development

It can be seen from the graph, the long-term trends of the real estate curve and the urbanization of the S-type curve is very similar, both have the existence of the inflection point of the speed of development, from the inflection point, before it the pace of development was increasing, after development of the rate decline. In the early urbanization, the urbanization go through the start-up and acceleration phase. The initial stage of urbanization, science and technology is less developed, means of subsistence from the primary industry is not rich enough, and the overall strength of the national economy is weak, the necessary social capital for secondary industry to develop is short, urbanization is relatively at a slow pace of development. Correspondingly, the real estate market demand and real estate investment are small, and real estate is a slow formation stage. In the period of accelerated urbanization, with the scientific and technological progress, labor productivity in agriculture is greatly improved, release a large number of rural surplus labor, urbanization bottom-up thrust from the previous solid growth of the national economy and social capital, so that scale industrialization, cities can provide more employment opportunities, urbanization top-down suction was enhanced, urbanization was to accelerate the development trend. At this stage, the rapid increase in urban population and the rapid growth of

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173 Yangbo, 2007, Research on the harmonious development between real estate industry and urbanization. Qingdao University of Science
the urban economy led to the rapid expansion of demand for the real estate market, guided by
demand, real estate investment is also rapidly expanding, growth stage of the real estate industry
get into a high-speed development. In the early stages of urbanization, concentrated urbanization
is the basic spatial evolution, and correspondingly real estate funds concentrates on quickly to
the big cities and the central city, showing the rapid growth of big cities and the real estate
investment of central city, the total real estate supply and demand has expanded dramatically. In
the late urbanization, urbanization experienced a deceleration period and a stable period. In the
deceleration period of the urbanization, the urban population has more than half of the total
population, the spillover effects of the city gradually get over the combined effect of a dominant
position in the convection mechanism of urban and rural space, and thus the acceleration of
urbanization began to become smaller, the speed of urbanization growth decrease. At this stage,
the growth rate of demand for real estate market began to fall, real estate investment growth
rate began to decline, from the point of view of development of space, real estate development
adapt the spread of urbanization, to the outskirts of the city and surrounding rural development,
the Housing real estate come to a mature stage. In the steady period of urbanization, the transfer
of rural surplus labor force has basically been absorbed by the city, the urbanization rate,
correspondingly the demand for real estate market is becoming saturated, real estate investment
declines, real estate industry come into a recession. It can be seen, the real estate industry and
urbanization showing the law of simultaneous development, the specific performance is: the
initial period of real estate correspond to the start of urbanization, real estate growth stage
corresponds the acceleration period of urbanization, maturity period of the real estate industry
corresponding to the deceleration of urbanization, the real estate recession period of real estate
correspond to the stable period of urbanization.

5.2 Introduction of coordination between China's urbanization and real estate

5.2.1 Urban labor division

To develop a city, we must firstly clearly understand its industrial advantages. Generally
successful city will have a prominent industry, such as manufacturing, research and design
industry. Now seeing from China's development mode, the labor division of the cities is as
following: The eastern cities mainly evolve high-end industrial of R & D industrial design, the
western cities become the manufacturing industry base. These local real estate development
trends should be in accordance with this rule.

5.2.2 Classification of the level of urbanization

In China, the city was divided into first-tier, second-tier, third-tier and fourth tier cities according
to some urban and economic indicators. A kind of division according to real estate market is:
"First-tier cities": Shanghai, Beijing, Shenzhen, Guangzhou, real estate market and other
industries significantly ahead of other cities, these 4 cities are considered as first-tier cities.
"Second-tier cities": except first-tier cities, cities which achieve the following data indicators and
more are called second-tier cities.
1 GDP reaches 200 billion yuan per year,
2 GDP per capita reaches 14,000 yuan,
3 Urban resident population reaches one million,
4 Built-up areas reach 100 square kilometers,
5 the annual real estate sales reaches 1.5 million square meters,
6, real estate sales price are beyond 3000 yuan / square meters.
"Third-tier cities": single or multiple indicators below the above requirements, are treated as third-tier cities.
"Four-tier cities": county-level cities

The main task of the third-tier cities is good to enhance the level of industrialization, complete primitive accumulation. The main task of second-tier cities is to work forward to a new livable city from the large industrial area. First-tier cities which have completed the main task of livable city, the main goal is to build a core economic area, to accommodate more and more demand of wealth it can brings together.

If you look at the overall plan of the second-tier cities, basically you can see, the most important part of the planning will always be the construction of new city area, which is the new residential area construction. While open the plan of all third and fourth tier cities, the most important part of the planning must be different kind of industrial zones. First-tier cities mostly focus on construction of the CBD. This is the inevitable result of their respective development stage.

Real estate, as an important part of the urban construction, must follow the main task of the respective cities. Real estate development should identify their positioning. Different positioning of the city needs different projects. If this project is to adapt to urban development, the project is healthy, there will be development able to solve social problems. If the real estate development gets over the development of the city or did not keep up with the development of the city, means these real estate projects are unhealthy, so that the project may not be successful, and cannot solve the housing problems, but cause housing prices or the imbalance in supply and demand structure problem.

Second-tier cities in China basically have the same characteristics: that is, in the early part of this century, new city areas began to be constructed, from a purely industrial city move toward the road of urbanization. Perhaps it is these cities start from the beginning of this century, the disposable income per person has reached $3,000, and many businessmen began to have the demand of better life, so urbanization must be local the Government's best choice. When the central government's financial resources create an entirely new city area, it's bound to attract the local affluent groups and wealth gathered together, in order to push more high-tech urban land and housing prices. Follow this objective laws, we can understand that economically developed second-tier industrial city, they concentrate forces to build new city area, is bound to succeed, also ensure the realization of the pooled effect of wealth. In turn, the three-tier, four-tier cities which are economically backward, if they are trying to build new city areas, subject to financial constraints, supporting facilities are limited, so enhancement of the quality of life is extremely limited, the attractiveness of wealth must be limited. Therefore, there would often be built out of
a ghost town. This is the objective laws behind construction of new city area.

5.2.3 Four types of urban according to real estate demand phase

<Nature of prices> (2011) divide cities into a kind of type according to the characteristic of the real estate supply and demand relationship: city of demand of first time home buyers, city of demand of improvement, city of investment demand, and city of speculative demand. These demands are generally compatible with other demands. For example, first-time home buyers of the city, they will hedge against inflation requirements. And consumer who has demand of improvement, may at any time sale of flats when the property market rose. Each city will show a different kind of characteristic of demand.

External characteristics of the property market from different demands have very obvious differences. For example, first-time home buyers demand do not ask for much of products, commercial residential building with one ladder and four apartments, six apartments, eight apartments are very common, customers have no special requirements for ventilation and lighting, no high requirements for the housing toward, their main concern is price. Any city that based on demand for first-time home buyers, there would not be a big wave of property price. The property market will be maintained at a stable level for a long time. Most common products are small high-rise or multi-storey staircase room, if with elevator there would only be one. Customers in the psychological will offend to two elevators, because it would lead to increase the rate of assessment derived to lower room rates. Rough housing are most common, submission with decoration would cause great resentment, because it will increase the amount of down payment. Brand real estate developers are generally reluctant to enter these cities, even if they get into, brand real estate developers are also difficult to achieve brand premium, only to sell at a equivalent price with sporadic and peripheral developers.

Cities mainly based on demand of improvement, high quality of product is required. House type is usually one ladder with two apartments, with north-south convection, comfortable elevator and lobby. The larger area of the house, the more expensive of the price. Finished apartment is not encouraged, but not cause objectionable. However, if the developer is trying to earn an amount on decoration, trying to achieve the premium through the renovation cannot be realized. Customers always have their own ideas of improvement in decoration. Once the city's real estate market, change from first-time home buyers type to improve type that generally would trigger a double exchanges in property market. Brand Real Estate Chamber of Commerce would be sought after by the public, and can achieve brand premium to about 10% higher than the sporadic developers. For example, a city in Guangdong Province, China, Foshan begin this turn of the transition from 2003, to complete the transition by 2008, property prices from less than 4,000 yuan in 2003, rising to 8,000 in 2008

Cities with investment demand characteristics, the primary features are: decoration premium. Customers of such city have seen the various aspects of society, and have been away from the nouveau riche mentality. They do not have so much time spent in the decoration, so they are

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175 Guangdong real estate year book
reluctant to let developers earn an amount of money in decoration. Of course, we know that investment demand is a higher level of demand than improve type of demand, so the requirements on product quality did not reduce, but there is a rising trend. Because only better products are order to achieve growth in value. At this stage, the small size apartment will be possible to achieve a higher unit price, because the total price must be low, there are less demand for customers investment funds. Once the property market has entered this stage, the price will increase at an incredible speed. Such as the central area of Guangzhou, in 2004 the average price is 6000, since the investment demand for the stock market started, price rapidly rise over a million in 2007, and now has been over 20,000. The average price doubles every three years\(^\text{176}\).

Cities which with exuberant speculation, such as Wenzhou, Shanghai and Beijing: These cities are the pooling of funds, the city brought together a large number of funds cannot be consumed by other means, only flood into the property market. Determine the market for these cities, just look at a data: the rate of convergence of idle funds. How fast the convergence of funds, we can see how fast property market grow. These cities are mostly a regional financial center or upstart gathering place. There are some cities, such as those tourist city, use the name of tourism to attract capital inflows, typically in some coastal cities in southern China such as Hainan, Zhuhai and Guangxi Beihai.

4 demands phases of the real estate market is accompanied by the development of urbanization process, and gradually upgrade. In the early stage of urbanization, user demand must be the main part of this stage. Since then, with the gradual progress of urbanization, escalation to improve the requirements phase, the investment requirements phase. As for the speculative stage, it is through real estate channels to absorb and consume capital, cities that can become the black hole of capital is not more.

5.2.4 Housing prices trend in four types of cities

In the first stage of market, the first time home buyers stage, price of land is very low, the proportion of floor price accounting for house prices is generally less than 10%. The main components in the prices costs accounts for roughly 60-70%. For cities based on first time home buyers, count the cost as 2500 yuan/m\(^2\), housing price is generally less than 3500 - 4500 yuan/m\(^2\)\(^\text{177}\). The vast majority of non-center-class cities are all of this kind of price now. The country’s resources are limited, accumulation of talent and resources can only meet the needs of a few central cities, and social resources cannot be widely distributed nationally wide.

At the second phase of the market, stage of improvement-type, land prices began to rise, the floor price accounted for prices began to rise and eventually can reach about 30%. Costs proportion began to decline to about 30%, the floor price costs will eventually reach the same level. The average selling price can take this grade of about 8500 yuan / m\(^2\)\(^\text{178}\).

\(^{176}\) Guangdong real estate year book
\(^{177}\) Data from China real estate year book
\(^{178}\) Data from China real estate year book
The third stage of the market is investment-type stage. The proportion of premium property prices gradually expanded and became the most important cost, accounting for 60-70%. Costs account dropped to below 20%. In such areas, the main value of the property market is a hedge against inflation. The average selling price can reach about 10000 yuan / m², the central city can be roughly about 20000 yuan / m². These cities have been maturely constructed. As CBD value of these cities is gradually appeared, funds in the city continue to precipitation, the investment function of the property market will continue to highlight.

Speculative city is not a necessary stage of a healthy market development. These cities are the gathering place of the idle funds to go into the property market. The sales prices of these cities are difficult to reflect the true value of the city.

The above four aspects can be saying the indicators of monitoring whether Chinese urban real estate conform to urban development, because of the different urbanization and economic development level of different regions of China.

5.3 Real estate development under the macro-economic and relative economic index

The driving force of the continuing growth of Chinese economy can be summarized as the following aspects: the process of urbanization, industrialization process, the demographic dividend, the process of globalization. One of the main driving force of the process is urbanization, American urbanization process began in 1840, roughly equivalent to the level of urbanization of China in 1949, that means the level of urbanization in China in 1949 delayed about 100 years compared to the United States, now China's urbanization rate is just over 50%, roughly equivalent to the level of American around 1915 to 1917. Compared with the United States, there is still a long way to go for the urbanization in China. From the view of the path of development, China's urbanization route is very steep and fast, while the process of urbanization in American is relatively flat, indicating that in the process of China's economic growth, the urbanization process is one of the strong driving force.

As China's economic policy reforms, the real estate industry becomes an important part of the
fixed assets investment, stimulate economic growth, and accelerate the achievement of industrialization, modernization and urbanization.

5.3.1 Real estate development under the macro-economic

Since the reform and opening up, China’s real estate investment and economic growth remains strong correlation. It can be seen from the figure\(^{181}\), real estate investment growth, advance economic growth and the volatility of the real estate investment is significantly higher than the volatility of the economic growth rate, real estate investment in China between 1986 and 1997 experienced the ups and downs, the highest growth rate 165%, the minimum fell to -7.1% in relative terms in the housing system reform after 1998, real estate investment growth is relatively stable, but the real estate investment still remain high, 1998 to 2011 the average annual growth rate reached 26.5 percent, nearly more than 2 times the GDP growth. In recent years the speed of China's real estate investment and house prices rise significantly faster than the economy, residents' income and consumption growth rate.

![Graph of real estate investment growth and GDP growth since 1998](image)

Since housing reform in 1998, the proportion of the added value of the premises in GDP is rising, from 4.1% in 1998 to 5.5 % in 2009, the average rate of real estate development and investment contribution to economic growth the in1998-2009 is 10.4%, spur economic growth on average one percentage point (see Figure 4). Which, in the case of the international financial crisis in 2008, the real estate contribution to economic growth is still 10.6 %, boosting economic growth by 1.03 percentage points; and in the most critical point to overcome the crisis in 2009, the real estate industry gave the highest contribution to the growth of economy, and the contribution rate is 19.4%, stimulating economic growth by 1.77 percentage points.

\(^{181}\) Data from World Bank and China Real Estate Yearbook, 2011
5.3.2 Comparative study with international economic development and urbanization rate

Though different countries will usually show great differences in aspects such as economic development, demographic characteristics, housing market conditions, look at the similar stage of development (measured per capita income levels), there would show similar characteristics of the economic and social development of each country.

● Judgment of similar stage of development

From the perspective of the level of economic development, from 2010 to 2020, China has gone through similar growth process of the United States from 1940 to 1970, the United Kingdom from 1955 to 1985, Japan from 1965 to 1985, while Korea from 1985 to 2000.

Figure 6 shows the economic development of China and major countries, take the international

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182 Data from China Statistical Yearbook
183 Data from China Statistical Yearbook
dollars in 1990 as a base, China’s current development of economic level is broadly in line with the 1940s in the United States, United Kingdom 1950s, late 1960s in Japan, South Korea in the late 1980s.

According to an conservative average annual per capita GDP growth rate of 7% to reckon, from 2010 to 2020 China’s per capita GDP would be about 7000 ~ 15 000 international dollars (take 1990 as reference, the same below). Solely from the point of view of the level of economic development, China in 2020 will reach the income levels of the United States in the 1970s, the mid-1980s in Japan and the United Kingdom, South Korea in 2000.

![Comparison of economic development in China and major countries](image)

Figure 5.7 Comparison of economic development in China and major countries

Note: ① The figure for the data, calculated at purchasing power parity in 1990 international dollars. ② The Chinese per capita GDP from 2010 to 2020 are extrapolated according to the average annual growth rate of 7%.

• The level of urbanization in China lags far behind the developed countries when under the same level of economic

From the perspective of the development process of urbanization, China’s urbanization rate in 2009 was 46.6%, which is equal to Japan in the early 1950s and South Korea in the mid-1970s, (see Figure 7). From "the 12th Five-Year" to 2020, China will be in the stage of rapid development of urbanization, in accordance with the pace of development the" Eleventh Five-Year "period of urbanization (about 1 percentage point increase of average year), China’s urbanization rate will increase to 2020 to 58%, equal to the level of urbanization in the 1950s in Japan and early 1980s of Korea. The United States and Britain basically completed the process of rapid urbanization in the 1960s, in 1920 the urbanization rate had been over 50%, while the urbanization rate in British has more than 50% as early as 1850.

184 Data from The World Economy: Historical Statistics
185 China began to do short-term planning which take five-years as a period from 1953, the first five-year plan, we referred to as "first five-year", and so on. The full name of the "12th Five-Year "Plan is: the 12th Five-Year Plan for national economic and social development of the People’s Republic of China. Beginning and ending time of the "12th Five-Year Plan" is 2011-2015.
According to indicators of level of economic development and urbanization, the level of urbanization in China lags far behind the United States under the same economic level, the United Kingdom, Japan and South Korea. Japan and South Korea's urbanization rate are more than 65% in China's current level of economic development, more than 75% in our level of economic development in 2020.

![Comparison of China and major countries urbanization level](image)

From these statistics we can see that, because there hasn't a real estate market economy before the reform and opening up in 1978, and now the level of urbanization is relatively backward compared to economic development, which have caused an unhealthy and incredible rapid real estate market development, such period of time that depends mainly on the real estate industry to stimulate economic is bound to cause a variety of social and livelihood issues.

### 5.3.3 Housing price-income ratio

Price earnings ratio can roughly describe the relationship between family income and housing prices in a city, through compare the different ratio in different years, you can see the capacity of city residents to purchase residential has increased or decreased.

The World Bank proposed that in developed countries, the normal price earnings ratio is generally between 1.8 to 5.5, while in developing countries a reasonable price-income ratio is between 3 to 6, the larger the ratio, the lower the ability to pay of households of residential. Between 1975 and 2005 in The United States, the price earnings ratio gradually increased from 3 to about 4.7. Between 1979 and 2001, the price earnings ratio has been fluctuating between 3.5 and 4.0.

However, according to information published by the United Nations, the degree of dispersion of the housing price-income ratio is quite large in different countries. According to statistics of 96

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186 Data from World Bank database, the Japanese data is corrected according to the data of the Japan Statistical Yearbook. urbanization rate of China from 2015 to 2020 is predictive value.
countries in 1998, the housing price-income ratio in these countries ranges from 0.8 to 30, average ratio is 8.4. In 1998 the housing price-income ratio of 12 countries which are equivalent to the current year average household income levels is from 2.1 to 20, average ratio is 9. If we compare like this, housing price-income ratio in Beijing is basically equal to the average level of these countries.

Since the reformation of housing system, China's urban residential sale price generally is at upward trend, and has a large increase in some years. However, there are still significant differences from the rise of price in the United States, Japan and other countries when there are real estate bubbles in housing prices. The real estate bubble in housing prices of U.S, Japan, mainly due to short-term low interest rate policy which let paying capacity of residents significantly improved, but the income of residents in housing prices did not significantly increase, the result is that house prices rose sharply then housing price-income ratio continuously improve and become significantly higher than the historical average level. House prices rose due to purely driven by low interest rates, lack of support revenue growth, once the low interest rate policy ends, interest rates rise sharply will inevitably lead to a decline in the resident ability to pay, and thus lead to the significant downturn in housing prices and burst of real estate bubble. Although prices of China now is in a generally upward trend, because of the overall income also in a rapid growth phase, the housing price-income remains stable in a mass, suggesting that the actual purchase ability of residents did not change much.

Average selling price of new commodity housing in China and housing price earning-ratio

figure 5. 9 New commercial housing sales and average price earnings ratio in China from 1998 to 2010

187 Estimate according to the Beijing Municipal Bureau of Statistics and WIND IT data
Seeing from the housing price-income ratio, real estate market in China is still in the range of normal development, without real estate bubble in an overall situation. However, we must see the real estate market is typical regional market, and there are huge differences of real estate market from city to city. If we use the same indicators to measure the first-tier cities like Beijing, Shanghai, Guangzhou, Shenzhen, you can find that the house price-income ratio of these cities has been an obvious deviation from the historical average level. In Beijing, for example, from 2001 to 2006, average housing price-income ratio is 11.88. From 2007, housing prices-income rate began to rapidly increase. From 2007 to 2009 the average ratio is 17.35, which was significantly higher than the previous six years. In 2010, Beijing’s price-earnings ratio has raised up to 21 times (as the following figure), which is the highest level since 2000. Consider from this, we can say that there are bubbles in the real estate market in Beijing and some other cities (especially the first-tier cities like Shanghai, Guangzhou, Shenzhen).

However, China is in the process of urbanization, as mentioned above, every year there are large amount of population flow into the city and housing demand increases, and due to obvious different level of resources, first-tier and second-tier cities are preferred cities. This is the objective and inevitable stage history of urban development. But distorted housing price-income ratio in these first-tier cities largely hinder the process of urbanization and bring about a lot of social problem.

![Figure 5.10 Housing price in Beijing](image)

- **Figure 5.10 Housing price in Beijing**
- **Note:**
  - [188] Date from National Bureau of Statistics of China
  - [189] Estimate according to the Beijing Municipal Bureau of Statistics and WIND IT data
5.4 Urbanization rate, demographic and supply and demand of real estate

5.4.1 Relationship between urbanization and supply and demand of real estate

The real estate industry and urbanization have a kind of balance relationship, and form a law of simultaneous development. At the same time, urban population growth will expand the demand for urban housing, thereby directly contribute to the rapid development of real estate, and real estate development can improve the quality of urbanization, achieving a virtuous circle.

Roughly calculated from the population, in terms of China's urban population\textsuperscript{190}, from about 200 million people in the 1980s, rose to 650 million in 2010, the city increased by 450 million people in 30 years. In the past 10 years in which the national real estate market develops rapidly, the city has increased by more than 200 million people.

It is needed to provide more than 6 billion square meters of new housing to meet these 200 million people's basic living needs if take 30 square meters per capita demand for housing to account. 10 years from 2000 to 2010, total volume of China's real estate market for residential is less than 4.5 billion square meters. The basic needs of 60 million square meters and the total volume of 4.5 billion square meters, the supply gap reaches as much as 1.5 billion square meters, it means that 25% of the demand cannot be met, which explains why the price cannot be going down.

Currently it is recognized by most scholars that future urbanization rate would be 1\% per annum, that is, the annual increase of urban population would be more than 13 million, which need to increase the housing supply of 400 million square meters.

Assume that the housing gap before would be slowly digested by increasing the supply in the next 10 years, plus the annual increase demand of 400 million square meters, and also consider some improving demand, then in the next 10 years, our housing supply should reach 6 billion square meters. So if we can reach this scale of supply? In the past 10 years, China's annual completion of housing area generally hovering between 300 million-500 million square meters. In 05-08 years the number is between 400-500 million square meters, in the other years is about 350 million square meters, the data of 2009 is 367 million square meters. We need to know, that nearly 10 years of real estate construction investment take proportion of total fixed investment, about 20\%, which is a rather high percentage. If we expect the completion of each year an area of about 400 million square meters, so it's about 40 million square meters in 10 years. Plus the problem of prices, these houses cannot solve the minimum living needs of the urban population, not to say the purchase demand of improving customers.

Based on this, strong investment and speculative demand in recent years, crowding out live demand which is the most necessary. After getting through the period of rapid economic growth, the wealth of the masses gradually accumulate, housing credit continuously get relaxed, coupled

\textsuperscript{190} Data from China's State Statistical Yearbook
with a lack of investment opportunities, investment demand and speculative demand over-expand, increase the imbalance between supply and demand of the real estate market.

From situation of the world's urbanization, rate of 30 to 70 percent is the accelerated development stage, and stable stage of development is after 70% rate of urbanization. Our country today is in the accelerate stage of urbanization, if supply long-term lag, it cannot meet the needs of the urbanization rate. This shortage is also one of the reasons that the price cannot fall down.

These data show that there is still much room and potential for the real estate market in China.

5.4.2 The impact of population age structure on the demand of real estate

Seeing from the point of view "period classification" to understand population age structure, now from 50s ~ 00s, respectively the number of population is 203 million, 240 million, 217 million, 222 million, 209 million, 163 million, in which the 50s and 60s and 80s experienced a stage of rapid population growth. In the past 10 years, in the context of China's rapid economic growth, the largest number of people who were born in the 60s, though they caught up with the era of welfare housing, improve demand and investment demand of this group is very strong. The 70s did not catch up with welfare housing, was forced to enter the real estate market as first time house buyers. The 80s have entered the age of marriage, and most of them get out from the original family in and re-establish new family, which has brought great potential demand. These different kinds of demands together lead to the potential demand on real estate to show explosive growth over the past decade.

Born population from 1975 to 1984 is about 194 million, 230 million were born from 1985 to 1994, and only 182 million people were born from 1995 to 2004. It can be seen that most of the population born from 1985 to 1994 in the last century, because at the beginning of 1990s, China has experienced a wave of baby boom (1987 was the highest), this part of the population entered the age of marriage from about 2010. Compare to the previous generation, urban population of this group are more than before, even the rural population yearning more for city life, these huge potential demand for housing will be released in the next 10 to 15 years (The reason for 10 to 15 years is considering the current price is too high, the age of first-time home buyers may be delayed). But after 2025, because the next wave into the marriageable age of the population plummeted (decrease of about 50 million), plus that a large number of 50s, 60s may begin to face death threats which lead to increase of housing idle, so that both supply and demand decided the real estate market may not be so hot as it is now.\(^\text{191}\)

5.4.3 Uneven urbanization of population

China's urbanization development is not balanced seeing from the distribution of population, in the flow of rural population, 60% flows toward the southeast coast, 30% flows to the central, western part only take 10%. China's urban population is highly intensive, especially in the eastern

\(^{191}\) Data from China's State Statistical Yearbook
part. These are additional population before are rural population, belonging to vulnerable groups, whose income is not high, so we can only say urbanization of population has been achieved. However, urbanization process is a gradual process, you need economic development, population movements and the gradual improvement of infrastructure, which need time to realize, where the urbanization of industry and life is not achieved. So the fact of urbanization is not very high as it shows as the urbanization rate. This excessive urbanization let us misinterpret that the city has developed to a level at which build too much building which is not for the housing of the main needs of the population, lead to the supply and demand imbalance.

5.4.4 Housing problem of the floating population under rural household registration system

5.4.4.1 "Pseudo-urbanization" under rural household registration system

Rural household registration system which has been long time existed in China makes a dual structure of social life, urban population and floating population are two totally distinct social class.

In the discussion of the problems of urbanization in China, academic and government sectors all agree that urbanization should first be the urbanization of the population, and it is to make a large number of migrant workers become urban residents. Therefore, as long as the majority of migrant workers haven’t been settled permanently in the city, the high urbanization rate of

192 Figure from web:http://www.xuexila.com/lunwen/economics/hangye/1336.html
urbanization of the population index system is "pseudo-urbanization" or "incomplete urbanization". But the reality now is exactly "pseudo-urbanization" or "incomplete population urbanization". According to The State Council Development Research Center survey of 301 villages of the County of labor export in 2007, the migrant workers, who has go out from their rural place and work in the city, get the local registered residence since the reform, only take 1.7% of migrant workers. Even so, only about 2 million of the country’s 140 million migrant workers have get urban household registration through buying house, getting marriage. Based on census of 1% population sample survey data calculated in 2000 and 2005, between the periods of these two years, the proportion of urban population increased from 36.6% to 44.7%. At the same time, the city's population who is still holding agriculture but accounted as urban proportion rise from 40.3% to 46.8%. In other words, 71.8% of the increment of the urban population in fact is agricultural accounts. According to the latest census bulletin, until 2010, among the total 1.34 billion people, the population living in urban areas is 666 million, which accounting for 49.68%, people living in a rural area is 674 million, accounting for 50.32%. Compared with the fifth national census in 2000, the urban population increased of 207 million while the rural population decreased by 133 million people, the proportion of urban population increased by 13.46%\(^1\). In the new urban population, there is still a considerable portion of agricultural accounts. It is estimated that according to the current statistics of the urban population, including 150 million migrant workers, at least there are 200 million people that do not have urban household registration.

5.4.4.2 Housing demand of floating population

From the point of view of income, multiple partitions of the system of China's labor market induce insecure job and low income of the floating population. Housing is the largest family daily living expenses of consumer durables, city residents who have no stable jobs and high incomes, is also very difficult to improve housing situation. For the floating population in the city to improve housing is more difficult thing. According to Lu Xueyi study, the average wage of China's floating population is only 8000 yuan / year, accounting for 1/3 of the total wealth that he created for the city, compared with the average wage of urban household registration labor, it is about 60% of the latter. That is, when buying the same house, the price earnings ratio of floating population is 1.67 times than urban residents.

From the point of view of housing consumption, for a long time, what Chinese farmers trying to pursue is not maximization of interests, but the minimal cost, according to Maslow’s hierarchy of needs, this kind of farmers’ living choice is rational. In this survival strategy, the housing consumption standards of the city’s floating population is considered according to rural consumption standards, and savings in rural consumption, consumption in the city is more of survival consumption, and performed as low housing consumption. China’s long-term account isolation system form a dual structure of social life, the urban population and the floating population are two distinct social classes, the social status of the floating population is even lower than the vulnerable groups in the city. Discrimination of urban residents to the floating population give them a psychological feeling of a "non-citizen", which is the reason for floating

\(^{193}\) National Bureau of Statistics, 2011
population to gather in rural—urban fringe. The floating population does not endorse urban identity, enable them to be removed in between the urban and rural areas, closer contact with rural, they cannot completely get into the urban society. This mentality makes the floating population are unwilling to purchase housing for real estate in the city.

5.4.4.3 Housing supply of floating population

(1) Main ways of getting housing of urban population

According to the fifth census housing questionnaire of 2000, the type of urban housing supply can be divided into: self-built housing, commercial housing, affordable housing, low-rent housing and public housing, etc. For urban residents, there are three main ways for achieving housing: purchase of commercial housing, buy affordable housing and low-cost rental housing. Commercial housing is purchased by groups with higher incomes purchase through the market mechanism. Affordable housing is mainly for low-income people in the city, which is a kind of housing supply with housing support. Low-rent housing is an implementation of social assistance for urban housing difficulties in the lowest income families.

In addition, urban residents can replace the existing home's ownership or use rights through market mechanisms or secondary housing market. Urban household who previously have property rights of public housing, can put their housing on the secondary housing market transactions to obtain better housing.

(2) The main form of obtain housing of floating population—leasing

Compared with urban residents, the floating population is facing a very different housing option. In large part due to the link between the household registration system and urban housing has not been touched, the floating population is basically still being placed out of mainstream housing distribution system, and urban housing supply system is almost completely ignores the group of floating population. It is very difficult for vast majority of floating population to get new housing. On the supply side, the floating population does not constitute a target group of the real estate market, whether it is a big city or small city, there are almost no suitable product of real estate for floating population. On one hand, real estate developers generally prefer the lucrative market of high-end market, what they provide is too expensive for the floating population. On the other hand, the government's housing security policies have nothing to do with floating population. A direct impact on the housing market is mainly reflected in the urban residential housing to solve equity issues, for those parts of population that cannot afford commercial housing, government lead the development of affordable housing. For low-income groups, the government has developed a low-rent housing system. However, both these two method of housing security system is only for local residents, floating population does not enjoy the preferential policies. Exclusive policy of government, real estate market positioning marginalized and purpose of mobile populations not to settle in the city, these three reasons cause the floating population mainly solve their housing problems through the housing rental market, especially in private houses lease. In the rental market, rental housing is mainly the following types: real
estate, listed housing reform, private houses of urban residents, low-rent housing by the
government, as well as self-build building by landless peasants. The higher prices of real estate,
listed reform housing, and private houses of urban residents which are in good location are which
migrants cannot afford. While inexpensive, low-rent housing with smaller scale is not yet the
open to the floating population. Therefore, the floating population can only live in private houses
far away from the centre of city and self-build buildings from landless peasants. To floating
population, China’s current housing supply is basic the market supply, the Government’s public
supply has not consider this group of population.

It can be seen from the above supply and demand analysis for the floating population. On the
one hand, the real estate market ignored this population. Housing supply does not meet their
purchasing power of housing, on the other hand. There is lack of demand of the floating
population of real estate. Therefore, the real estate market fails to solve housing issues of the
mobile population.

5.5 Supply and demand of land and spatial structure change in China’s real estate market

5.5.1 China’s land policy

After implement of the tax system in China in 1994, as a fixed income, the land transfer of local
finance are all belonged to local government, and this gradually become the local government
financial revenue.

Currently a most important feature of China’s economic and urban growth mode is, to attract
merchants and luring investments in the regional competition, the local government provides
cheap land, subsidized infrastructure and reduces the basic labor rights and environmental
protection standards to the manufacturing sector investors.

There are three main factors for the impact on the pattern of regional competition:

First of all, because of fierce market competition caused by relatively surplus of productivity at
the first stage of China’s reform and redundant construction and a market-oriented reform of the
common role in 1992, local state-owned and township enterprises began a gradual conversion
even privatization, investment competition in the regional the level started. After the tax-sharing
reform in 1994 of which the basic feature is "revenue centralization", tremendous financial
pressure has been given to local government, further strengthen the local governments involved
in the fierce competition which expanding the tax base driven power. Third reason is related to
local fiscal rely on sales tax and the land transfer of commercial or residential area which is
caused by "revenue-sharing-scheme", when the development of a local manufacturing industry
has spillover effects on local services, there would certainly be the situation that local
government in order to obtain the services business tax and commercial and residential land
grant fee, further strengthen the incentives of the manufacturing sector to attract foreign
investment.
5.5.2 Demand and supply of total amount of land

From the perspective of construction land, in 2011 China's urban construction land per capita is actually up to 155m², urban construction land is more than upper limit 40m² (now the international standard is 115m²/person), which is more than economically developed countries, urban construction land per capita 82.4m² and 83.3m² per capita in developing countries, which are most developed countries in Europe and the United States of which the arable land per capita resources level is times or even ten times than China. See from the stocks of residential house, housing area per capita which is less than 5m² in 1980 increased to 26.11m² in 2005, about 28m² by the end of 2007, and now it has been close to 30m² per capita with well-off housing space standards, homeownership rate of urban residents had reached 83 percent, more than the general level of developed countries.

Secondly, seeing from supply of new land, the national real estate land and residential land supply overall maintained a steady growth since 2005. Since 2008, because of unsold land and the frequent flow of standard caused by real estate market change in some cities, now the real estate land and residential land supply got a slight decrease (in 2008 the decline is 1.6% and 4.2% respectively, the first half of 2009 the decline is 5.7% and 9.5%), but the amount of use land were higher than the same period of 2006 levels, affordable housing land supply continues a steady growth, increase get to 27.6% and 36.3% respectively, along with gradual warming of the real estate market, land supply will increase further.

In the first half of 2004-2009, the national real estate development land supply is 369,046 hectares, if consider the average volume rate as 1.2, building area that can be built reaches 4,428,550,000m², respectively greater than the same period in the land acquisition area (2.05287 billion square meters) and to complete development of land area (1.34154 billion square meters), greater than the same period for completion area (2.91514 billion square meters) and the sales area (3.29127 billion square meters). In the real estate development, In the first half year in 2004-2009, the supply of residential land is 268,852 hectares, the same can be built according to the average floor area ratio of 1.2, 3.22622 billion square meters of residential can be built, and also greater than the same period in the completion of the residential area (2.30483 billion square meters) and sales area (2.94496 billion square meters). Basically, the supply of land meet the needs of real estate development.

5.5.3 Unbalance structure of land use

At present, China's urban and rural land for construction is approximately 240,000 square kilometers, from the structural point of view, 5/6 of the total amount is scattered in rural areas of farmers' collective construction land, and the rest 1/6 is urban construction land. From 1990 to 2004, China's urban construction land increased from 13,000 square kilometers to nearly 39,140 square kilometers, urban construction land per capita has reached 155 square meters. From the urban point of view, the scale of industrial land in cities across the country in 2004 has reached 7900 km², increase to 9853 km² in 2008, accounting for more than 25 percent of all urban

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194 China's real estate Statistical Yearbook. 2010
construction land area, while only 10 percent the proportion of ecological land, residential land proportion has been hovering around 31 percent, Shanghai, Suzhou and other cities also reached 25.77% and 31.79%. However, the world of urban planning standard of urban industrial land is generally not more than 10-15% of the urban land.

As it is shown in the below table, China's urban land use structure is very unreasonable, the percentage of industrial land is too large, proportion of residential, transportation, environmental greening and the third industrial land is low. This is obviously closely related to land prices. For example, in 2006, overall price level in major cities across the country is 1544 yuan / m², in which the average price of commercial land is 2480 yuan / m², the average price of residential land is 1681 yuan / m², while the average land price of industrial land is 485 yuan / m². To 2010, major cities price level is 2882 yuan/ m², which has increase of 229 yuan over the previous year. Commercial land got the highest land price which is 5185 yuan/m², followed by residential land which is 4245 yuan per square meter. Industrial land still got the lowest price of 629 yuan/m².

<table>
<thead>
<tr>
<th>Composition and proportion of urban construction land in China(2004-2009)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>km²/year</strong></td>
</tr>
<tr>
<td>Urban construction land</td>
</tr>
<tr>
<td>Residential land</td>
</tr>
<tr>
<td>Land for public facilities</td>
</tr>
<tr>
<td>Industrial and storage land</td>
</tr>
<tr>
<td>Transportation land</td>
</tr>
<tr>
<td>Land for roads and squares</td>
</tr>
<tr>
<td>Municipal land for public facilities</td>
</tr>
<tr>
<td>Green</td>
</tr>
<tr>
<td>Special land</td>
</tr>
<tr>
<td><strong>Percentage/year</strong></td>
</tr>
<tr>
<td>Urban construction land</td>
</tr>
<tr>
<td>Residential land</td>
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<tr>
<td>Land for public facilities</td>
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<td>Transportation land</td>
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<tr>
<td>Land for roads and squares</td>
</tr>
<tr>
<td>Municipal land for public facilities</td>
</tr>
</tbody>
</table>

From the incremental view of urban construction land, industrial land accounted for between 40-50%. As it is shown in the following table\(^{196}\), in 2003, 2005 and 2007, respectively China supply industrial land of 9.94 ten thousand hectares, 9.05 ten thousand hectares and 13.56 ten thousand hectares, accounted for 51.4%, 54.7% and 57.7% of the supply of total construction land increment, the price of industrial land in slow growth in the past three years, respectively is 125,138,156 million per hectare, in the same period, the price of commercial area is respectively 355,634,871 million yuan and residential land per hectare is respectively 598,680,1131 million yuan.

The negative results of this kind of land mode are quite prominent. On one hand, low-cost manufacturing sites lead to rapid economic growth of the cities are mostly dependent on the land "flat expansion", large amount of waste of industrial development area. Some cities focus on construction of "garden-like factory", taking up a lot of land resources, thus squeezing the arable land resources and the need of residential land which are the most urgent for people's life. On the other hand, utilization of land and space is low. Numbers of industrial enterprises get the transferee of the land use rights, at low price (often the minimum protective prices), often leave part of land unused, some companies even engage in large area of green in the area. To maximize the commercial, residential land transfer payments, Local governments is bound to a monopoly, controlling supply.

\(^{196}\) Data from Statistical Yearbook of China's land resources

<table>
<thead>
<tr>
<th>2003</th>
<th>Number of transaction</th>
<th>Area (hectare)</th>
<th>Total price (%)</th>
<th>Total price (ten million yuan)</th>
<th>Unit price (million yuan)</th>
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</thead>
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<tr>
<td>Total transfer of land</td>
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<td>193603</td>
<td>100</td>
<td>54213</td>
<td>280</td>
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<td>Commercial land</td>
<td>59702</td>
<td>39082</td>
<td>20.2</td>
<td>13862</td>
<td>355</td>
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<td>Industria, mining and warehousing land</td>
<td>58827</td>
<td>99433</td>
<td>51.4</td>
<td>12473</td>
<td>125</td>
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<tr>
<td>Land for public facilities</td>
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<td>5815</td>
<td>3</td>
<td>939</td>
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<tr>
<td>Public buildings land</td>
<td>1864</td>
<td>2929</td>
<td>1.5</td>
<td>582</td>
<td>199</td>
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<tr>
<td>Residential land</td>
<td>81487</td>
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<td>22.4</td>
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<tr>
<td>Transportation land</td>
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<td>600</td>
<td>0.3</td>
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<td>Water conservancy facilities</td>
<td>128</td>
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<td>0.4</td>
<td>28</td>
<td>35</td>
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<tr>
<td>Special land</td>
<td>1170</td>
<td>1618</td>
<td>0.8</td>
<td>322</td>
<td>199</td>
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</table>

<table>
<thead>
<tr>
<th>2005</th>
<th>Number of transaction</th>
<th>Area (hectare)</th>
<th>Total price (%)</th>
<th>Total price (ten million yuan)</th>
<th>Unit price (million yuan)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total transfer of land</td>
<td>162112</td>
<td>165586</td>
<td>100</td>
<td>58838</td>
<td>353</td>
</tr>
</tbody>
</table>

\[^{196}\] Data from Statistical Yearbook of China's land resources

<table>
<thead>
<tr>
<th>Green</th>
<th>9.3</th>
<th>9.8</th>
<th>9.9</th>
<th>10</th>
<th>10.3</th>
<th>10</th>
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<tbody>
<tr>
<td>Special land</td>
<td>2.5</td>
<td>2.3</td>
<td>2.2</td>
<td>2.1</td>
<td>2.2</td>
<td>2</td>
</tr>
</tbody>
</table>
Model of economic growth based on cheap industrial land, over-supply increases the current unhealthy real estate market. This model leads to excessive investment in manufacturing in the economy, and form manufacturing capacity surplus which the domestic market cannot digest. At the same time, the low compensation for land acquisition mode and low-level (executive) social insurance also makes it difficult for the level of consumption of the landless peasants and migrant workers, these two great groups to enhance economic growth simultaneously, which in turn further deteriorate the problem of insufficient domestic demand growth of Chinese economy.

In order to digest the accumulation of excess manufacturing capacity, the government had artificially make low RMB exchange rate, because this is the only way to excess manufacturing capacity output to international markets. Once RMB is artificially low, it will bring increasing export surplus of the manufacturing sector. RMB exchange rate cannot be timely adjust to progress with the productivity, this will naturally induced those speculators who think that the RMB will avoidably get appreciation to invest a lot of hot money, resulting in rapid accumulation of foreign exchange reserves. The result is a serious excess liquidity in local economy, the influx of excess liquidity will naturally flow into commercial and residential land which is less supplied due to the monopoly of local government, leading soaring real estate prices.

The rapid growth in house prices in the past 10 years, make the main force of the urbanization of
the population, the vast majority of rural migrants cannot afford to buy real estate. In fact, in the current stage of development, even those new entrants with higher education qualifications in the labor market often find that the existing housing prices far beyond their capacity to pay. This is obviously constitutes a major constraint of Chinese urbanization of the rural population.

5.5.4 Housing land supply and demand

China is a big country with a population of over 1.3 billion people, vast population and limited farmland, the lack of arable land resources is China's basic national conditions, in the context of development of China's industrialization, informatization, urbanization, marketization and internationalization, protection of 18 million hectares of arable land is very arduous task, contradiction of supply and demand of construction land is very prominent, limited land supply, regional and structural contradictions would be long-term existed, land supply can only meet the most basic living needs. From 2004 to the first half year of 2009, the national total supply of residential land area is 269,000 ha, take floor area ratio as 1.2, land that has been supplied cannot be built into housing area of about 3.228 billion square meters, sufficient to meet the 124 million people live by the standard of 26 square meters per capita required. and in 2004-2008 new urban population is 0.83 millions, even taking into account the passive needs of urban demolition, land supply can basically meet the need. However, as we analyzed before, the supply can still not meet the demand of residential market.

Moreover, from perspective of the real estate development cycle, the supply of land can achieve the supply of housing basically after 2-3 years. But in the current market, the lag of land development exacerbated the tight supply and demand in the market. According to National Bureau of Statistics data, from 2000 to the first half of 2009, real estate developers cumulative acquisition of land area of 313,000 hectares, a total of 203,000 ha area of land had been developed, areas in the real estate development enterprises which are being developed and undeveloped land area 110,000 hectares, accounting for 35.2% of the total. In 2007 survey from Ministry of Land and Resources also showed that the supply of land within two years after completion is about 17.5%, the proportion of under developing construction and not yet commenced area accounted for 54% and 28.5% respectively. Until the end of November in 2007, being developed and untapped real estate land account for a total of 114,300 hectares through the whole country. A lot of real estate development sites remain in the hands of developers, especially some of the listed real estate company which get a lot of money through the stock market occupy a lot of land, so developers can control the development progress and sales progress to control the market supply, resulting in a lack of effective supply of land, aggravate the imbalance between supply and demand of the real estate market.

5.6 Conclusion of Chinese real estate problems

After the reform, Chinese real estate had developed a lot, but still exist some problems. Through the analysis above, we talks about the problem from an economy, demography, supply and

\[197\] Data from National Bureau of Statistics
\[198\] Data from National Bureau of Statistics of China
demand, land and policy points of view.

5.6.1 Problems related to economics

(a) The developing speed of real estate in some area is too fast
From an economic way to look the urbanization, the economic developing speed of China asks the urbanization of China accelerates, and also the real estate development, to catch up with the economic need. So in a long time, the development of real estate is still needed, it is the trend of urbanization. But in some first and second-tier cities, especially some eastern coastal cities, the development of real estate are aimless to grow, without plans. This leads to the over constructed of the fixed investments.

The influence of urbanization is not just about the increase of the population of city, and the capital construction in the city. It is more about the “software” of the city. Before we mentioned the population indicator, economy indicator, and social indicator of urbanization, they should be the relationship of going forward one by one, first the population increased, and then the economy changes and last the social relationship changes. Now many urbanization data is just come from the change of the population of city, and use it as the judgment of the development of the real estate. This can lead to the blindness construction of real estate, not according to the need, according to the structure of the society. It is a waste of the resource. At the same time of the construction, the income of the citizens could not follow the housing price, they can just sigh but could not do nothing to change.

(b) The over high price of some area

From the data of housing price-to-income ratio, we can see that the average ratio of China is actually within a safe and reasonable limit. It shows that in most of the cities, the development of real estate is healthy. It is just in some first and second-tier cities, especially some eastern coastal cities, the housing price-to-income ratio are far higher than the other cities, and far more than the difference of the income. The high housing price makes the purchasing power of residents decrease, also makes these “expensive city” the paradise of rich people. According to the data, from 1998 to 2004, the increase of per capita disposable income of citizens was 8.6% per year, while the increase of commodity housing price was reached double-digit. The hardness of living makes the competitiveness of the city and the attraction of talents decreases, gap between the rich and the poor becomes larger, not good for the development of the city.

(c) Private capital has no way to investment

At the beginning of macro control, to prevent the over-heated of economy, several important investment field closed the door to the private capital, only left stock market and real estate market. But because the stock market goes not well in recent years, real estate market almost became the only channel for the private capital. The aim of these capitals is making profit, so it regards real estate market as an investment market. Only if the price increases, profit can be made. And the continuing increasing of the price always has someone to support, so the price
goes higher and higher. The real estate of China nowadays has the function of “quasi money”. But the private capital could not be controlled once went out, so this can easily leads to the instability of society.

(d) Banking capital gathering in the real estate market

The high rate of return makes the gathering of the capital, and the investment mortgage policy makes many commercial banks taking part in the investment of real estate indirectly. Almost all of the banks regard real estate mortgage as a strategic focus in the future to development. Many banks ignore the risk of mortgage and let overmuch capital flowing into the real estate market. The mortgage market in China has some cutthroat competition.

On the other hand, the mortgage policy raises the budget line of the house purchasing, so raises the demand of the house purchasing. Part of the mortgage is illegal, and some banks provide the loan to the consumer which is without the certificate of the capital.

5.6.2 Problems related to population, supply and demand

(a) Imbalance of supply and demand in different social group

In the urbanization in a demography way, we cannot describe all the population as the same, but should separate them into different social group. Especially in some developing countries, the increase of the population is because of the flowing of the rural population into the city. This kind of people is with low education and low income, still not get rid of agriculture and integrate into the city life. So when we analyze the supply and demand, we should separate the vulnerable groups with others, to see if the demand and supply of these groups is balance. From the supply of the high income group, it is enough or even more than enough. So this let the rich people invest or speculate in the real estate market to make profit. However, to the vulnerable groups, although there is social security housing policy, but the implementing of the policy is always not going well and could not satisfied the demand of the household without a house. It leads to a situation that in one hand there are lot of vacant houses, but on the other hand, many people could not afford it.

(b) Forever supply behind the demand

The general supply and demand analysis shows that in the process of urbanization, the total amount of the house is not enough and need to increase, to satisfy the expanding of the city and the need of the citizens. So from an economic way, there will be a long period of supply going behind the demand, the objective demand exceeding supply make it impossible to decrease the house price to adjust the market. Because in the market economy, the relationship of supply and demand is the element that decides the price, so we can only develop social security housing system at the same time of the development of the commodity house, by using different policy to satisfy different needs.
5.6.3 Problems related to land use and spatial structure

(a) Waste of land and soaring house price caused by the imbalance of a land-use structure
Low-cost manufacturing sites lead to rapid economic growth of the cities are mostly dependent on the land "flat expansion", land use of different types of industrial development region is not intensive, some cities construct a lot "garden-like factory", taking up a lot of land resources, thus squeezing the arable land resources and residential land that are mostly needed by people. On the other hand, Rate of utilization of land and space is rather low. Some industrial enterprises get the transferee of the land use rights at low prices (often the minimum protective prices), often use a portion and leave the others, some companies even engage in large area of green in the factory area. Local governments in order to maximize the commercial, residential land transfer payments, is bound to supply in a monopoly, controlling way.

(b) Though housing land supply is adequate, the market response to be inadequate
Although the structure of the city's land is significant bias, according to the above analysis, we can see the housing land supply is adequate, but the market response is still inadequate, the reasons are no more than three: First, imbalance of real estate land supply and demand in the region. From the characteristics of China's urbanization development, industry and supporting infrastructure overly flow into large cities, resulting in a large number of people streaming into cities, while the land available for development in big cities is very limited, in the period of speed-up industrialization and urbanization, there is also a relative shortage of land for residential construction, further aggravate supply and demand which is already severe, resulting in housing and land prices rising fast. Second, investment and speculative demand are vigorous, crowding out demand of self-living style which should be firstly protected. After going through rapid economic growth, wealth of the masses gradually accumulated, housing credit continuous relaxate, coupled with a lack of investment opportunities, investment demand and speculative demand over-expand, increasing the imbalance between supply and demand of the real estate market. Third, design of housing style is irrational. To seek for higher profits, developers pay much more attention to high-end residential development, resulting in the prevalence of large units of residential housing, lack of small and medium-sized housing.

5.6.4 Problems related to regulations about real estate

a. Land policy of government

Through the analysis of before, we could know that the unhealthy presentation of Chinese real estate is---- the land price is too high. The land of China is public, belongs to the government. After implementing the system of tax distribution, in order to increase the financial revenue, the local government transfers the land to get paid, it is like the rent. Also there are different kinds of land fees. However, the more fees, the housing price is higher. Once the government gets more, they want to reduce the supply of the land to increase the land price, while the cost is paid by the consumer. From this aspect, the local government is the impellor of the high housing price. To maintain the revenue, it is impossible for the government to suppress the real estate bubble by using tough policy.
b. Blindness construction for GDP

GDP is an indicator of evaluation of governor’s performance. In the worship of GDP, the two main policy of government twist the development of cities.

First policy is to increase the GDP by constructing the infrastructure, like constructing the bridge or the road, continuing building and continuing tearing. The constructions of this way had a short life. According to the data, one project makes the country lost 4,000,000,000,000 yuan\(^{199}\).

The second way is to real estate development to increase GDP. The relation of these two is proportional. The higher of the price, the trading volume is bigger, and the GDP is higher. If a house price is raised from 100,000 yuan to 1,000,000 yuan\(^{200}\), then the GDP is raised 10 times also. But the government does not relate the real estate to the people’s livelihood, and the high housing price is based on the hardness of citizen’s living. The more the government concentrates on the GDP, the harder the live of the citizen, the unhealthier the real estate will be.

c. The implement of social security housing

The macro control policy of recent years is controlling in two ways, commodity housing and social security housing. The security housing is for guarantee the housing problem of low income family, but because of many reasons, the implement of the security house is not so good. According to the demand, the 10,000,000 units of security house of 2011 must start to build before November. But actually, the speed of construction is quite slow because of the fund problem. The report shows that to the June 2011, the average operating rate of security housing in 21 provinces was 33.3%. But according to another report, in the other 6 provinces, the average operating rate of security housing was not reached 20%\(^{201}\).

There are 3 ways of constructing security house, first is constructed directly by government, second is constructed together by government and enterprise, third is only constructed by enterprise. But nowadays most of the security housing is direct by the government, and the enterprise which takes part in is generally state-owned enterprise. Because the problem of fund, land, and tax, although most of the developers do not give up the big market of security housing, the enthusiasm is not very high. In the list of top 100 real estate developer, only 30 of them took part in the project.

5.6.5 Urban development problems caused by unhealthy real estate market

a. Over-heated real estate enlarge the gap between city and rural area

One of the reasons of big demand of real estate is because the too fast gathering rural population to the city, and the occupation of resource by real estate affect the allocation of resource in rural

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199 Data from China real estate year book
200 Data from China real estate year book
201 Data from China real estate year book
area. So the gap between the city and rural area becomes larger, and affects the construction of new country. This turn over to made more and more rural population move to the city and form a vicious circle.

b. The eco problem caused by real estate
The unbalance of the real estate structure, leads to the environment problem like over congestion, traffic jam, high price of housing and pollution...
6. Example of Shanghai real estate

2.1 The urbanization situation of Shanghai

2.1.1 Location

Shanghai, is the largest city in China, one of the municipality directly under the Central Government, situated in the China east coast, the east part of Yangtze River delta. It is the leader of this area. *Shanghai is a city of immigrants, with 23,000,000 of the permanent resident population, floating population occupied about 40% of the total population.*

The inner city of Shanghai is composed by Old City, Changning District, Xuhui District, Hongkou District, Huangpu District, Jing’an District, Putuo District, Yangpu District, and Zhabei District.

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202 <China statistical year book>
The outer districts are Chongming District, Pudong District, Western Suburbs, Zhujiajiao and Southern Suburbs.

2.1.2 Status of Shanghai

Shanghai is the commercial and economic center in China, GDP of it ranks the first in China. The main industries are commerce and trade, finance, information and manufacture... Shanghai is a railway and air transport terminal of China, the port is one of the biggest container ports in the world, and the city is also dedicating to become the international shipping center.

The leading role is not always that successful. After 1949, in a long period the development of Shanghai fell into a dead state because of the institutional reason. Until in the 90s of 20 century, Shanghai got the redeveloping chance after the reform to the market economy, and developed towards the goal of becoming a metropolitan.
2.1.3 Urbanization Rate

From the year of 2004, Shanghai exceeded Beijing, became the city with the highest urbanization rate in China. **Until 2010, the urbanization rate of Shanghai reached 88.86%, in the meantime, the average level in China is 34.17%.** From the chart we can see, the urbanization progress increase with a relatively high speed, in which from the year of 2003 to the year of 2005, the speed is highest.

<table>
<thead>
<tr>
<th>Year</th>
<th>Urbanization rate of China</th>
<th>Urbanization rate of Shanghai</th>
</tr>
</thead>
<tbody>
<tr>
<td>1987</td>
<td>25.32</td>
<td>65.8</td>
</tr>
<tr>
<td>1988</td>
<td>25.81</td>
<td>66.5</td>
</tr>
<tr>
<td>1989</td>
<td>26.21</td>
<td>67</td>
</tr>
<tr>
<td>1990</td>
<td>26.41</td>
<td>67.40</td>
</tr>
<tr>
<td>1991</td>
<td>26.94</td>
<td>67.60</td>
</tr>
<tr>
<td>1992</td>
<td>27.46</td>
<td>67.90</td>
</tr>
<tr>
<td>1993</td>
<td>27.99</td>
<td>69.00</td>
</tr>
<tr>
<td>1994</td>
<td>28.51</td>
<td>70.10</td>
</tr>
<tr>
<td>1995</td>
<td>29.04</td>
<td>70.80</td>
</tr>
<tr>
<td>1996</td>
<td>30.48</td>
<td>71.50</td>
</tr>
<tr>
<td>1997</td>
<td>31.91</td>
<td>72.20</td>
</tr>
<tr>
<td>1998</td>
<td>33.35</td>
<td>73.00</td>
</tr>
<tr>
<td>1999</td>
<td>34.78</td>
<td>73.80</td>
</tr>
<tr>
<td>2000</td>
<td>36.22</td>
<td>74.60</td>
</tr>
<tr>
<td>2001</td>
<td>37.66</td>
<td>75.30</td>
</tr>
<tr>
<td>2002</td>
<td>39.09</td>
<td>76.40</td>
</tr>
<tr>
<td>2003</td>
<td>40.53</td>
<td>77.60</td>
</tr>
<tr>
<td>2004</td>
<td>41.76</td>
<td>81.16</td>
</tr>
<tr>
<td>2005</td>
<td>42.99</td>
<td>84.50</td>
</tr>
<tr>
<td>2006</td>
<td>43.90</td>
<td>85.80</td>
</tr>
<tr>
<td>2007</td>
<td>44.94</td>
<td>86.80</td>
</tr>
<tr>
<td>2008</td>
<td>45.68</td>
<td>87.50</td>
</tr>
</tbody>
</table>

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203 <China statistical year book>  
204 <China statistical year book>  
205 <Shanghai real estate year book>
The continuous increase of the urbanization rate of Shanghai between 2000 to 2010, is mainly because in this period, the downtown area expanded. In January, 2001, Fengxian county and Nanhui county changed to districts of Shanghai. In August, 2009, in order to strengthen the financial and shipping status, the Shanghai government put Nanhui district in the area of Pudong new district. To the December, 2010, there were 17 districts and 1 county. The expanding of administrative area, the re-division of urban and rural made the urbanization rate of the city increased continuously and ranked the first of China.

2.1.4 The population situation of Shanghai

Before 1949, the main population of Shanghai is local people. After, a large amount of immigrant population gathered in Shanghai, including population of other provinces, population of foreign country. The population census of 2010 shows that there are 160,000 foreign residents which are living in Shanghai permanently.

The population census of 2010 also shows that in 2010, the urban population of Shanghai was 20,555,100, occupied 89.3% of the total population of Shanghai. Comparing to the population census of 2000, the urban population increased 6,065,100, the proportion increased 1%. The rural population of 2010 was 2464,000, occupied 10.7% of the total population, increased 546,000 comparing to that in 2000.\(^\text{206}\)
1982
- Rural population: 58.8%
- Urban population: 41.2%

1990
- Rural population: 66.2%
- Urban population: 33.8%

2000
- Urban population: 88.3%
- Rural population: 11.7%
figure 6.5  rural population and urban population in Shanghai

6.2 The urban circle of Yangtze River delta

The Yangtze River Delta is shown in green in this map of Shanghai (on the east at center) alongside the neighboring provinces of Jiangsu (to the north and west) and Zhejiang (to the south and west). Parts of Jiangsu and Zhejiang which are outside the Yangtze River Delta are shown in yellow. Provincial boundaries are shown in purple, sub-provincial boundaries in grey.
The urban circle of Yangtze River delta is including Shanghai, the cities of Zhejiang province and Jiangsu Province. From the data, we can see this urban circle is very strong. The GDP of 2010 of Yangtze River delta urban circle was 7067,532,000,000 yuan, occupied about 17.8% of the total GDP of China. In the top 100 cities of China, there are 15 cities in the Yangtze River delta urban circle. This urban circle ranks first of the urban circle in China.

The population of urban circle of Yangtze River delta is about 90,000,000, the cities of Shanghai, Hangzhou and Nanjing are the cities which have the largest increased population for many years. Actually, this circle has become the most important immigrant supporting body of China. The area occupied 10% of the population of China, but the 16 cities of the circle created almost 20% of the GDP, 25% of the state revenue and 48% of the total export-import volume. The urban circle has become economic integration leaded by the modern service industry of Shanghai, followed by normal service industry of other big cities, and manufacture industry of some middle and small cities.

Chinese metropolis circle development and management research center of Shanghai Jiao Tong University China published the report of “evaluation number of Chinese urban circle of 2012”. It is said that among the 18 urban circles in China, the urban circle of Yangtze River delta ranks first in 7 years.

If it is needed to develop the economic integration of urban circle of Yangtze River delta, the real estate is a supporter of economy and population. Because in the urban circle, the relation of the region, of the culture, of the people is very near, the communication and the immigration is very often. So the cooperation of finance, transportation, manufacture and so on is tighter than other circles of China.

Now the development of many countries is based on the development of urban circle, to stimulate and drive the development of surrounding relative areas. As the sixth biggest urban circle in the world, the urban circle of Yangtze River delta has a strong competitiveness, and also can be found a large real estate development potential from its resources. In these years, the real estate development of Shanghai, Hangzhou and Nanjing are very fast. The big investment value leaded to an overheated development and created real estate bubble.

In the second half year of 2010, the concept of “1 hour urban circle” has basically realized, which accelerates the city integration effect. One influence is people working in the CBD of Pudong district in the day, tasting tee in the West Lake of Hangzhou in the evening. This integration effect is changing the space-time concept and house purchasing concept.

6.3 The macro economy of Shanghai

GDP

207 <Report of Chinese metropolis circle evaluation number in 2012>, Chinese metropolis circle development and management research center of Shanghai Jiaotong university
### 6.3.1 GDP

#### Table 6.2 GDP of Shanghai

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP in Shanghai (million yuan)</th>
<th>Per Capita GDP (yuan)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>89,377</td>
<td>6,955</td>
</tr>
<tr>
<td>1992</td>
<td>111,432</td>
<td>8,652</td>
</tr>
<tr>
<td>1993</td>
<td>151,161</td>
<td>11,700</td>
</tr>
<tr>
<td>1994</td>
<td>197,192</td>
<td>15,204</td>
</tr>
<tr>
<td>1995</td>
<td>246,257</td>
<td>18,942</td>
</tr>
<tr>
<td>1996</td>
<td>290,220</td>
<td>22,275</td>
</tr>
<tr>
<td>1997</td>
<td>336,021</td>
<td>25,750</td>
</tr>
<tr>
<td>1998</td>
<td>368,820</td>
<td>28,240</td>
</tr>
<tr>
<td>1999</td>
<td>403,496</td>
<td>30,805</td>
</tr>
<tr>
<td>2000</td>
<td>455,115</td>
<td>30,047</td>
</tr>
<tr>
<td>2001</td>
<td>495,100</td>
<td>31,799</td>
</tr>
<tr>
<td>2002</td>
<td>540,876</td>
<td>33,958</td>
</tr>
<tr>
<td>2003</td>
<td>625,081</td>
<td>38,486</td>
</tr>
<tr>
<td>2004</td>
<td>740,000</td>
<td>44,839</td>
</tr>
<tr>
<td>2005</td>
<td>924,766</td>
<td>49,649</td>
</tr>
<tr>
<td>2006</td>
<td>1,057,224</td>
<td>54,858</td>
</tr>
<tr>
<td>2007</td>
<td>1,249,401</td>
<td>62,041</td>
</tr>
<tr>
<td>2008</td>
<td>1,406,987</td>
<td>66,932</td>
</tr>
<tr>
<td>2009</td>
<td>1,504,645</td>
<td>69,164</td>
</tr>
<tr>
<td>2010</td>
<td>1,726,598</td>
<td>76,074</td>
</tr>
<tr>
<td>2011</td>
<td>1,919,569</td>
<td>82,560</td>
</tr>
</tbody>
</table>

#### Figure 6.7 GDP in Shanghai

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208 <Shanghai statistical year book>
6.3.2 Proportion of industry

In 1978, the housing investment in Shanghai was just 179,000,000 yuan, but to the end of 2007, it reached 85,313,000,000 yuan. The real estate investment has become the most important part of fixed investments and the indispensable power of drive the economy. The value added increased from 0.5% of the proportion of GDP in 1990 to 6.5% in 2007. \(^\text{209}\) So the real estate development contributes a lot to the local economy.

6.4 The demand and supply situation of real estate in Shanghai

As an international metropolis, the entry of foreign capital and some supporting policy form the government activate the secondary market.

6.4.1 construction aspect

<table>
<thead>
<tr>
<th>year</th>
<th>real estate investment (million yuan)</th>
<th>investment speed</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993</td>
<td>2,203</td>
<td>73.33%</td>
</tr>
<tr>
<td>1994</td>
<td>11,743</td>
<td>433.04%</td>
</tr>
<tr>
<td>1995</td>
<td>46,620</td>
<td>297.00%</td>
</tr>
</tbody>
</table>

\(^\text{209}\) <Shanghai statistical year book>
\(^\text{210}\) Xu Mingdong, <China real estate bubble empirical analysis—example taken from real estate market of Beijing, Shanghai and Shenzhen>, Fudan University, 2005
<table>
<thead>
<tr>
<th>Year</th>
<th>Real Estate Investment (million yuan)</th>
<th>Percentage Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>65,779</td>
<td>41.12%</td>
</tr>
<tr>
<td>1997</td>
<td>61,423</td>
<td>-6.62%</td>
</tr>
<tr>
<td>1998</td>
<td>57,712</td>
<td>-6.04%</td>
</tr>
<tr>
<td>1999</td>
<td>51,483</td>
<td>-10.79%</td>
</tr>
<tr>
<td>2000</td>
<td>56,598</td>
<td>9.97%</td>
</tr>
<tr>
<td>2001</td>
<td>62,031</td>
<td>9.63%</td>
</tr>
<tr>
<td>2002</td>
<td>72,020</td>
<td>16.11%</td>
</tr>
<tr>
<td>2003</td>
<td>90,124</td>
<td>12.50%</td>
</tr>
<tr>
<td>2004</td>
<td>117,546</td>
<td>30.14%</td>
</tr>
</tbody>
</table>

**Figure 6.9**  
Real estate investment in Shanghai
First from the investment aspect, the chart shows that from 1993 to 2004, the real estate investment is increasing continuously, in 1993, the investment was 2,203,000,000 yuan, in 2004 it reached 117,546,000,000 yuan, in the 12 years, the investment increased 53.4 times. But at the meantime, the development scale shows some characters, which are from 1993 to 1996, the investment speed was very fast.

1998 was the year that the welfare-oriented public housing distribution system was abandoned officially, and the commercial housing market began to form. After 1998, the housing investment is basically the commodity houses. However, during 1998 and 1999, the commodity house investment and new area under construction was not increased so much and even had negative growth. Maybe it is because people need time to accept the commercial house market.

After 1998, the local government published some positive policies to stimulate the real estate market. So from 2000 to 2004, there is a new round of real estate investment with the high growth speed.

From the aspect of investment growth speed, the chart shows that from 1992 to 1996, because the over fast of the investment speed, there was bubble in the real estate market. Especially in the year of 1994, the increment speed was 433.04% comparing to the last year, it was about 6 times of the speed of last year. Also in 1995, the increment speed was 297%. However, from 1997 to 1999, the increment speed decrease rapidly, there were negative growth. From 2000, new round of development made the speed increased again.

And the capital ratio of real estate investment and fixed investment is creasing from 1993.
6.4.2 Transaction aspect

<table>
<thead>
<tr>
<th>Year</th>
<th>Completed Residential Areas</th>
<th>Growth Rate</th>
<th>Sales Area</th>
<th>Growth Rate</th>
<th>Sales (Million Yuan)</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994</td>
<td>3,412,100</td>
<td>6.6%</td>
<td>1,656,700</td>
<td>9.72%</td>
<td>3,460</td>
<td>12.7%</td>
</tr>
<tr>
<td>1995</td>
<td>6,997,100</td>
<td>105.1%</td>
<td>5,668,600</td>
<td>242.20%</td>
<td>14,590</td>
<td>321.6%</td>
</tr>
<tr>
<td>1996</td>
<td>12,079,000</td>
<td>72.6%</td>
<td>5,735,000</td>
<td>1.20%</td>
<td>18,350</td>
<td>25.8%</td>
</tr>
<tr>
<td>1997</td>
<td>14,650,000</td>
<td>21.3%</td>
<td>6,864,500</td>
<td>19.70%</td>
<td>21,960</td>
<td>19.7%</td>
</tr>
<tr>
<td>1998</td>
<td>15,653,000</td>
<td>6.9%</td>
<td>11,419,000</td>
<td>66.30%</td>
<td>40,930</td>
<td>86.4%</td>
</tr>
<tr>
<td>1999</td>
<td>14,686,000</td>
<td>-6.2%</td>
<td>13,287,000</td>
<td>16.40%</td>
<td>45,460</td>
<td>11.1%</td>
</tr>
<tr>
<td>2000</td>
<td>16,436,000</td>
<td>11.9%</td>
<td>15,579,000</td>
<td>17.20%</td>
<td>55,550</td>
<td>22.2%</td>
</tr>
<tr>
<td>2001</td>
<td>17,580,000</td>
<td>6.9%</td>
<td>17,966,000</td>
<td>15.30%</td>
<td>66,180</td>
<td>19.1%</td>
</tr>
<tr>
<td>2002</td>
<td>19,839,000</td>
<td>11.4%</td>
<td>19,606,000</td>
<td>9.10%</td>
<td>80,800</td>
<td>22.1%</td>
</tr>
<tr>
<td>2003</td>
<td>24,918,000</td>
<td>25.6%</td>
<td>23,764,000</td>
<td>20.40%</td>
<td>121,630</td>
<td>49.2%</td>
</tr>
<tr>
<td>2004</td>
<td>34,430,000</td>
<td>38.2%</td>
<td>34,888,000</td>
<td>38.90%</td>
<td>226,380</td>
<td>58.9%</td>
</tr>
</tbody>
</table>

![completed residential areas](chart)

**Figure 6.11** Completed residential areas in Shanghai

From the analysis of supply—complete area and demand—sale area, we can see the period of

211 Xu Mingdong, *China real estate bubble empirical analysis—example taken from real estate market of Beijing, Shanghai and Shenzhen*, Fudan University, 2005
1994 to 1997, due to the encouragement of policy and the lead of the market, the developers did not have an accurate positioning and expectation of the market, caused oversupply situation, and the gap of complete area and sale area enlarged every year. To the year of 1997, the gap was 7,785,100 square meters. But from 1998, the gap decreased. And because of the mortgage loan policy, from 2001 to 2004, the sale areas almost equaled to the complete areas.

6.4.3 Consumer aspect

<table>
<thead>
<tr>
<th>Year</th>
<th>housing price-to-income ratio of Shanghai</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>10.5</td>
</tr>
<tr>
<td>1996</td>
<td>11.5</td>
</tr>
<tr>
<td>1997</td>
<td>11.2</td>
</tr>
<tr>
<td>1998</td>
<td>9.3</td>
</tr>
<tr>
<td>1999</td>
<td>9.0</td>
</tr>
<tr>
<td>2000</td>
<td>8.4</td>
</tr>
<tr>
<td>2001</td>
<td>6.7</td>
</tr>
<tr>
<td>2002</td>
<td>7.7</td>
</tr>
<tr>
<td>2003</td>
<td>9.0</td>
</tr>
<tr>
<td>2004</td>
<td>10.0</td>
</tr>
<tr>
<td>2005</td>
<td>10.9</td>
</tr>
<tr>
<td>2006</td>
<td>10.6</td>
</tr>
<tr>
<td>2007</td>
<td>11.2</td>
</tr>
<tr>
<td>2008</td>
<td>10.2</td>
</tr>
<tr>
<td>2009</td>
<td>14.6</td>
</tr>
<tr>
<td>2010</td>
<td>15.4</td>
</tr>
<tr>
<td>2011</td>
<td>12.4</td>
</tr>
</tbody>
</table>

212 Shanghai Municipal Statistics Bureau
From 2001, after the deepen house system reform in 1998, the ratio increased almost every year except 2008.

This is the housing price-to-income ratio of Shanghai. A reasonable ratio should be within 10 if we compare with the other countries. But from 2004, the ratio of Shanghai exceeded 10, and increased every year until in 2008, it decreased a little, but from 2009, it bounced back again and reached a higher ratio.

But we have to notice that when calculating the housing price-to-income ratio, it is included the economically affordable housing also. But the price of economically affordable housing is lower than commodity house about 40%-50%, and the fluctuations in prices are smaller than the commodity house. So, it is necessary to separate these two kinds of houses to calculate the housing price-to-income ratio.

<table>
<thead>
<tr>
<th>Top 10 cities with highest housing price-to-income ratio in 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>city</td>
</tr>
<tr>
<td>Beijing</td>
</tr>
<tr>
<td>Shanghai</td>
</tr>
<tr>
<td>Hainan</td>
</tr>
<tr>
<td>Fujian</td>
</tr>
<tr>
<td>Tianjin</td>
</tr>
<tr>
<td>Zhejiang</td>
</tr>
</tbody>
</table>

Municipal Statistics Bureau of related province and city
Comparing to the other cities of China, the housing price-to-income ratio of Shanghai is the very high.

6.4.4 Housing price of Shanghai

<table>
<thead>
<tr>
<th>Year</th>
<th>Average house price in Shanghai (yuan/m²)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>3176</td>
</tr>
<tr>
<td>2000</td>
<td>3326</td>
</tr>
<tr>
<td>2001</td>
<td>3659</td>
</tr>
<tr>
<td>2002</td>
<td>4007</td>
</tr>
<tr>
<td>2003</td>
<td>4989</td>
</tr>
<tr>
<td>2004</td>
<td>6385</td>
</tr>
<tr>
<td>2005</td>
<td>6698</td>
</tr>
<tr>
<td>2006</td>
<td>8237</td>
</tr>
<tr>
<td>2007</td>
<td>10292</td>
</tr>
<tr>
<td>2008</td>
<td>13411</td>
</tr>
<tr>
<td>2009</td>
<td>15800</td>
</tr>
<tr>
<td>2010</td>
<td>19168</td>
</tr>
<tr>
<td>2011</td>
<td>22351</td>
</tr>
</tbody>
</table>

Figure 6.13: Average house price in Shanghai

214 <Shanghai real estate year book>
The data shows the housing price of Shanghai from 1999 to 2009. Because Shanghai generally changed to the market economy of real estate from 1998, it could be seen the general trend of housing price from this data. The price of 2011 has raised about 7 times comparing to 1999. It is the fact that the Shanghai real estate market has bubble.

But as for different district, the amount of increase is different. Like in some district near the center, where there are basically elite housing now, the amount of increase should be far higher than the number above.

According to the data of China Real Estate Information Corp, in 2011, the average housing price is about 22351 yuan, in 2004 it was 6385 yuan. It increased about 250% during the 7 years. In the same period, the price in Fengxian district, where is far from the center, increased 165%, but the price in Jingan district and Yangpu district, where are near the center, increased about 400%.

6.5 The real estate market of Shanghai

6.5.1 Commercial real estate

In the recent years, the housing real estate market got macro control, the price raising is limited, the trading volume decreased. However, the trade volume of commercial real estate is increasing. For some of the experienced developer and investment, the commercial real estate which is out of the macro control, has increasing potential. The capital begin to flow into the commercial real estate market, the trading volume is active.

The report of China Commercial Real Estate Union--<development report of China commercial real estate of 2010 and 2011> shows that from 2010, the growth speed of Chinese real estate is increasing. In 2010, the total investment in commercial building reached 559,890,000,000 yuan, increased 34.2% comparing to the last year. And office building reached 180,650,000,000 yuan, increased 31.2% comparing to the last year. The sale of commercial building reached 535,400,000,000 yuan, increased 46.3%, and the sale of office building reached 214,900,000,000 yuan, increased 31.2%. In 2011, the growth of commercial real estate is still increasing.

In the first half year of 2011, the trading volume of commercial land of Shanghai reached 10,517,000,000 yuan, occupied over 20% of the total trading volume. The proportion increased comparing to the last year. In the first half year, there were 104 lands being transferred, the total area was 5,003,600 square meters. In these lands, commodity house land occupied 38 lands, 2,058,800 square meters, commercial land occupied 41 lands, 1,227,800 square meters, security house lands occupied 25 lands, 1,746,800 square meters.

From 2011, the big company of housing real estate announced that it will expand the proportion of commercial real estate. In June, 2011, China Vanke founded managing business-enterprises in Shanghai real estate year book.
Shenzhen, and published that in the future, Vanke will change from community real estate to commercial real estate, and increase to 20% of the commercial property development scale.

6.5.2 Social security housing

Statistical bureau published that from January to November, 2010, the area under construction of commodity house was 18,360,000 square meters, sales area of commodity house was 14,510,000 square meters. However, for the whole year of 2011, under construction area of all kinds of the security houses reached 15,000,000 square meters, and there were 11,500,000 square meters of security house being supplied in the market.\(^{217}\) That is to say, the area of security house of 2011, nearly equals to the area of commodity house of 2011.

However, it depends on the composition of the security house. If most of the security houses are relocated house and small unit house, then the effect to the market is not that big. If most of the security houses are low rent housing and economically affordable housing, it is much more useful to the society. Relocated house is a kind of house for the relocated households. The ex-house of the relocated households is demolished, and in order to compensate them, the government offers a new house for the households. But in this trade, the government can still make profit from transferring the land.

Shanghai Administration of land resources and planning also shows that until October, 2011, the total land supply of residence were 948 hectares, in which the land supply for the security housing were 764 hectares, occupied about 80% of the total land supply.\(^{218}\)

If we do the research of these 764 hectares land, we will find that the relocated house occupies 590 hectares, small unit house occupies 41 hectares, while the economically affordable housing were just 119 hectares, low rent housing were just 14 hectares. If we plus the last two, it occupies just 14% of the 764 hectares.\(^{219}\) So we can see that the most part of the security house does not contribute to the society as it looks.

6.6 The financial situation of Shanghai real estate

6.6.1 Bank credit

After the mortgage loan is legal, and all the data shows that the real estate loan is a kind of fine assets of bank, many banks expand the loan scale to decrease the non-performing loan rate. So the commercial banks are active to the mortgage loan.

On the other hand, the speculator also needs the capital support of the bank. So there is a big demand of mortgage loan. There were examples of repeated mortgage and Repeat loans, even there was individual purchased hundreds of house relying on the housing mortgage.

\(^{217}\) Shanghai Municipal Statistics Bureau
\(^{218}\) Shanghai Administration of land resources and planning
\(^{219}\) Shanghai Municipal Statistics Bureau
Until now, in the commercial banks in Shanghai, at least half of the loans are real estate loans, many capital of speculation are taken out from banks. This increased the financial risk of the bank, and makes the industry less healthy. The data shows that 70% to 80% of the loan of China Construction Bank of Shanghai is in the real estate market.

6.6.2 Private capital

Wenzhou is located in Zhejiang Province, where there is hidden abundant private capital. Wenzhou people has the name of “Chinese Jew”, are good at business. After the reform and openness, the Wenzhou people gathered lots of richness, the private capital grows bigger and bigger. In the same time, the wealth of Wenzhou became the symbol of the urban circle of Yangtze River delta. According the estimate of research institute for macro-economics of National Development and Reform Commission, Zhejiang province which is with a high privatization degree, has about 800,000,000,000 yuan of private capital, while all the urban circle of Yangtze River delta area has the private capital of about 2500,000,000,000 yuan.\(^\text{220}\)

From 1998 to 2001, the Wenzhou private capital flew into the local real estate market, impelled the housing price growing with the speed of 20% every year. The housing price of the city raised from 2000 yuan/ m\(^2\) to 7000 yuan/ m\(^2\) in a short time.

On 18, August, 2001, the first Wenzhou speculation team—157 members—went to shanghai. Only in 3 days, they purchased about 100 houses, with 50,000,000 yuan flowing into Shanghai real estate market. After the first try, the speculation becomes even hotter. Since 2003, the urban circle of Yangtze River delta where there is the hottest real estate speculation, got the anti-speculation control policy to restrict the short time speculation behavior. In Hangzhou, the one who buys second house must pay 20% of the individual income tax. In Nanjing, in March, 2004, the government published policy to forbid the speculation behavior of real estate. While in Shanghai, in April, 2004, the government published policy to restrict the transaction of property under construction, not allowing the second transaction of that kind of property before the property ownership certificate is got.

Shanghai, as the center of the speculation of this round, suffered a lot. To the end of 2005, the housing price decreased from 9872 yuan to 6698 yuan. The real estate speculation team was in Waterloo. Many speculators got out of the Shanghai real estate market and entered other real estate market of small cities.

While in 2009, the speculation team reentered Shanghai again. In February, 2009, there is Wenzhou private capital flowing into Shanghai, after that the speed accelerated. Especially after Nanhui district became part of Pudong district, Pudong area became the main investment area of Wenzhou people. In April, 2004, after the policy “new national 10” was implemented, the investment and speculation of real estate got restricted. Most of the speculation team got out of the Shanghai market again.

\(^{220}\) The national development and reform commission macroeconomic research institute
6.6.3 Foreign hot money

Shanghai is an international metropolis, and also the economic center of China. As more and more real estate company entered Shanghai, the foreign investors look to further increase of the Shanghai real estate market. Foreign capital continuously flows into the market to accelerate the development. Also the high expectation of investors is a reason of the high housing price of Shanghai nowadays.

For the foreign investors, the exchange rate is the most important factor of investment in Shanghai. As the raise of RMB against US dollar and Euro, more and more foreign capital flows into Shanghai. Although the housing price is high for the residents, but for the foreign investors, there is not high housing price, only they can see the high growth speed of the house price. If we compare the housing price with that in Hong Kong, New York and Tokyo, it is not so high of the price in Shanghai. If we look from the market, the project which is invested by foreign investors is basically top grade project with the unit price from 2,000,000 yuan to 5,000,000 yuan and located in the center. Because the projects in the center are less and less, so for the investors, the price of this level is not expensive at all. They are always the first choice for the foreign investors.

If we take this amount of investment as demand, then this demand is not real. The hot money comes for profit, will not stay for long. When the capital flows in, the price increases rapidly. When the RMB raises, and the investment get profit, this amount of capital will be sure to leave. At this time, the demand will decrease, the price will fall. If it exists the real estate bubble, it will fracture from the top grade buildings.

6.7 The land transferring situation of Shanghai

From the 90s of 20 century, Shanghai began to implement transferring land policy. It is when Pudong started being developed, the local government decided to introduce worldwide capital by transferring land. The transferring fee in the beginning played an important role for the urban construction of Shanghai. But after 1996, the area of transferring land of every year decreased a lot.

The reason is that most of the transferring land is transferred to foreign investors. Because it is the starting period of urban development, the investor was afraid if constructing too many houses, it is hard to sell, so after several years, they decreased the transferring land area.

After 1996, the government changed from transferring to foreign investors to transferring to domestic investors. In 1994, the land which is transferred to foreign investors occupied 83% of the total transferring area, while in 1995, it decreased to 53%, in 1996 it was 36%, in 1997 it was 27% and in 2000 it was 18%.

From 1997, the government transferred lots of land to domestic investors, but since in that

221 Wang Lianli, <Disaster of Chinese real estate>, Cosmos Books Ltd., 2011
period, the real estate market of China was not so good, the vacancy rate was high, the enthusiasm of developers was depressed. Hence in that period, the amount of transferring land is not so satisfying, many land kept long in stock.

<table>
<thead>
<tr>
<th>Year</th>
<th>Complete development land area (m2)</th>
<th>Transferred land area (m2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>4,242,500</td>
<td>3342,800</td>
</tr>
<tr>
<td>1997</td>
<td>2,724,300</td>
<td>3,300,000</td>
</tr>
<tr>
<td>1998</td>
<td>944,800</td>
<td>3,300,000</td>
</tr>
<tr>
<td>1999</td>
<td>1,481,000</td>
<td>3,351,000</td>
</tr>
<tr>
<td>2000</td>
<td>1,656,000</td>
<td>5,927,000</td>
</tr>
<tr>
<td>2001</td>
<td>2,465,000</td>
<td>7,390,000</td>
</tr>
<tr>
<td>2002</td>
<td>3,393,000</td>
<td>10,103,000</td>
</tr>
<tr>
<td>2003</td>
<td>6,055,000</td>
<td>14,690,900</td>
</tr>
<tr>
<td>2004</td>
<td>6,727,600</td>
<td>10,387,600</td>
</tr>
<tr>
<td>2005</td>
<td>5,884,000</td>
<td>7,543,000</td>
</tr>
<tr>
<td>2006</td>
<td>2,507,000</td>
<td>5,246,000</td>
</tr>
<tr>
<td>2007</td>
<td>1,372,000</td>
<td>1,414,000</td>
</tr>
<tr>
<td>2008</td>
<td>1,376,000</td>
<td>3,264,000</td>
</tr>
<tr>
<td>2009</td>
<td>879,000</td>
<td>1,853,000</td>
</tr>
</tbody>
</table>

From the data, we can see that from 1996 to 2009, the area of transferring land every year is larger than the area of develop land. That is to say, all this land which is transferred but not developed is vacant, in stock. The efficiency of land developing is quite low. However, doing like this, the government can get the transferring land. On the other hand, the developer also can stock in land, make the price increase and sell.

From 1994, the house vacancy area equaled to about half of the total commodity house area. In 1998 and 1999, the vacancy area increased to 79% and 88% of the total commodity house area.223 The severe vacancy rate is also the reason that the developers slow down the developing speed and decrease the transferring land.

This is the land transferring situation from 2003 to 2011 in Shanghai.

<table>
<thead>
<tr>
<th>Year</th>
<th>Transferred land fee of Shanghai (million yuan)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>9,175</td>
</tr>
</tbody>
</table>

222 Wang Lianli, <Disaster of Chinese real estate>, Cosmos Books Ltd., 2011
223 Wang Lianli, <Disaster of Chinese real estate>, Cosmos Books Ltd., 2011
224 <Shanghai real estate year book>
In 2011, the amount of the land transferring fee of Shanghai was ranked No.1 among the Chinese cities, but still decreased 16.7% comparing to the last year. Beijing ranked No.2, also decreased 37.9% comparing to last year. If we compare the fee of 2006 with 2011, it raised about 6 times in 5 years.

Table 6.10 Top 10 cities with highest transferred land fee in 2011

<table>
<thead>
<tr>
<th>City</th>
<th>Transferred Land Fee (Million Yuan)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shanghai</td>
<td>126,000</td>
</tr>
<tr>
<td>Beijing</td>
<td>101,930</td>
</tr>
<tr>
<td>Suzhou</td>
<td>86,650</td>
</tr>
<tr>
<td>Tianjin</td>
<td>78,940</td>
</tr>
<tr>
<td>Chongqing</td>
<td>78,440</td>
</tr>
<tr>
<td>Hangzhou</td>
<td>75,550</td>
</tr>
</tbody>
</table>

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225 `<China real estate year book>, 2011`
6.8 The expectation of Shanghai real estate market

The expectation of the increase of the housing price in Shanghai is a reason of speculation behaviors. The soaring up of the housing price is also because the expectation of housing increasing increases.

The first phase is from 2001 to 2003, it is the phase of housing price increasing reasonably. After 2002, Shanghai had succeed in bidding the Expo for 2010, the real estate of Shanghai entered a phase of rapidly developing, also was the housing price. Especially the price of the area near or in the Expo site, it increased the second day of the bidding. A reasonable explanation about this is people are confident of the economy development after getting the chance to hold Expo. The expectation is increasing, and this attracts more and more capital flowing into the real estate market.

The second phase is from 2003 to now, it is the unreasonable phase for the real estate. We can see simply from the housing price trend of these years.

6.9 The real estate policy of Shanghai

6.9.1 Stating period

On 14th, October, 1979, State Infrastructure Commission of Shanghai published <report about solving the housing problem by accelerating the housing construction in 3 years>, proposed integration of the residence construction and urban construction, the integration of construction in a systematic way and that in an individual way, according to the large demand of the housing market. The main strategies are:

1. Reforming the housing construction system.
   In March, 1980, the residence construction working conference of Shanghai proposed practicing “investment of multi-channel, construction of multi-level”. That is taking out part of the public house every year to sell to the enterprise, organization or individual with a market price. In 1980, the investment increase 59.18% comparing to the last year, the completed residential areas reached 3,000,000 square meters.226

2. Proposing “cooperative housing”.
   The residence construction department of every district unites the enterprises and public institutions which do not have the ability to construct house, to build cooperative housing by gathering the capital of them, subsidize them with the building material and equipment, and sell

226 Shanghai tong office, www.shtong.gov.cn

<table>
<thead>
<tr>
<th>City</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shenyang</td>
<td>61,880</td>
</tr>
<tr>
<td>Wuhan</td>
<td>58,380</td>
</tr>
<tr>
<td>Kunming</td>
<td>55,750</td>
</tr>
<tr>
<td>Dalian</td>
<td>52,910</td>
</tr>
</tbody>
</table>
to their workers with 1/3 of the cost. Until 1990, the residence of this kind reached 290669 square meters. In July, 1986, Shanghai found the first “residence cooperation”. The households which are with housing problem can join in voluntarily, the individual bears 1/3 of the construction cost, the other capital is offered by their work unit or relative associations. The construction, distribution and management are charged by the residence cooperation. In December, 1987, Shanghai found another residence cooperation. Until 1990, these two cooperations built the residence about 20,000 square meters.\(^{227}\)

3. Selling commodity house with subsidy.
In 1984, the local government of Shanghai implemented < Try out method of selling commodity house>, regulated that all the commodity house, no matter high-rise or multi-story house, it can only be sold with the price of 360 yuan/m\(^2\), individual can purchase with only 1/3 of the selling price, the other would be paid by the work unit or government. From 1984 to 1987, this kind of residence is sold 498,000 square meters. After 1988, the local government took part of the public house to sell to the difficult households with only 1/3 of the cost.

4. Selling used public house.
In the second half year of 1988, as an experimental unit, Shanghai tried to sell the used public house in some district. In April, in Huangpu district, there were 20 households purchasing used residences, with an average price of 197.28 yuan.

After the work of several years, the residence area of Shanghai raised from 24,164,000 square meters in 1979 to 89,010,000 square meters.\(^{228}\)

6.9.2 Deepening phase
In January, 1988, the State Council held the working conference of housing system reform, confirmed the <Execute solution of implementing housing system reform in cities of China by stages and in groups>. In the same year, Shanghai held the “Reform leading group of housing system of Shanghai”, and set the Shanghai housing system reform office. From July, 1988, the office began to investigate the housing condition of Shanghai.

In March, 1990, local government founded “research group of housing problem of Shanghai”, did the decision research and optimization design of the reform project.

On 8\(^{th}\), February, 1991, the ninth National People's Congress standing committee passed <Execute solution of housing system reform of Shanghai>. On 28\(^{th}\), the State council ratified this solution and it began to implement from 1\(^{st}\), May, 1991. The main methods are:

1. Implementing housing fund policy.
In 1991, the housing fund paid by workers and working units was about 5% of the salary.

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\(^{227}\) Shanghai tong office, www.shtong.gov.cn
\(^{228}\) Shanghai tong office, www.shtong.gov.cn
2. Implementing housing rental allowance policy.
The rent of public house of Shanghai, became double according to the <Provisional standard of housing rent in Shanghai>. In the same time, the government paid the housing rental allowance to the workers which rent the public house. The amount of allowance was about 2% of the salary. For the retired veteran cadres, members of a revolutionary martyr’s family and elderly person of no family, the rents were free. The money the government increased because of increasing the rent, was used for the maintenance of the house.

3. Preferential policy for purchasing house.
It asked for the work unit to sell the house first and then distribute the left, the proportion of selling house cannot be less than 20% of the house amount of that year. All the workers which are eligibility, can have priority of choosing house and have privilege in price and tax if they apply to purchase house. The privilege price in 1991 was 250 yuan, if it is paid off, he can get the property ownership certificate. After 5 years of getting certificate, the house can be sold in the market.

4. Cutting tax.
The contract tax decreased from 1.5% of the housing price to 0.75% of it, handling charge of transaction decreased from 0.5% of the housing price to 0.08% of it. Before 31th, December, 2000, if individual purchased the vacant house which got the < House consign use permit> before 30th, June, 1998, the transaction tax and contract tax was exempted for the buyer, the business tax and contract tax was exempted for the seller.

To the end of 1998, there were 729,300 public houses sold, the construction area were 38,690,000 square meters, occupied about 45% of the total public house area. The home ownership rates reached 40%. Until July, 1997, there were 151 urban real estate management organs changing to property management company.

From 1991 to 1998, there were 5 adjustments about the public house rent. The average increment was about 50%. To September, 1998, the rent per month had succeeded 3.97% of the salary of worker. Increasing the housing rent can fill the holes of maintenance capital of government, reduce the financial burdens.

The policy about the land and finance also related with the housing price and housing reform. In 1992, Shanghai implemented land transferring policy for the first time, this policy made the Shanghai real estate market developing quickly. But the macro control and the Asian financial crisis depressed the market again. For saving the real estate market and industry, from 1994 to 1998, Shanghai government implemented “blue registered residence policy” (a kind of registered residence between permanent and temporary), mortgage policy and tax refund policy to warm the market again.

6.9.3 Monetization of the housing distribution reform

In December, 1998, according to the < notice about deepening the city housing system and
accelerating housing construction by the State Council>, the eleventh National People's Congress standing committee of Shanghai passed < the suggestions about deepening the city housing system and accelerating housing construction of Shanghai>, made some regulations about the guiding ideology, goal, principal and content of the reform, they are:

1. Stopping physical housing distribution system, and applying monetization housing distribution.
   The new house and empty public house can only be sold rather than rent. The work units which did not apply monetization housing distribution, their workers can purchase the new house or the empty public house according to the public house selling policy.

2. According to the administrative rank, professional and technical posts, industrial grade, work seniority, office term and the housing area, to determine the housing standard and housing allowance standard.

3. Building and completing the housing supply security system.
   The low income households are provided the public houses to rent by the government and work unit, middle income households can purchase economically affordable housing, and can also rent or purchase the normal commodity house, high income households should rent or purchase economically affordable housing. In April, 1999, Shanghai founded office of management of low rent housing, was mainly responsible for the house renting of low income households. In September, 2000, <Trial method of low renting house in Shanghai city> began to be implemented.

After the policies, until the late 90s, the individual purchasing rate of house reached 98%. This not only took use of many vacant houses, but also increased the market demand.

In the drive of these policies, in 1999, the house price began to rise. As a pillar industry of economy development, at the end of 20th century, after the policy support of real estate market, to the 2003, the fervor for investing in the real estate market was very high. The price was increasing very quickly and beyond the expectation of government. From 2003 to 205, is the period with the highest growth speed of real estate price, although during the two years, the government had published some policies to restrict the growth, but the affect was not so good.

6.10 Per capital living space of Shanghai

<table>
<thead>
<tr>
<th>year</th>
<th>Per Capita Living Space (m2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994</td>
<td>7.5</td>
</tr>
<tr>
<td>1995</td>
<td>7.95</td>
</tr>
<tr>
<td>1996</td>
<td>8.7</td>
</tr>
<tr>
<td>1997</td>
<td>9.3</td>
</tr>
</tbody>
</table>

229 Shanghai Municipal Statistics Bureau
6.11 Comparison of the real estate market in Italy

6.11.1 General status in recent years

6.11.1.1 GDP

According to the reference of Italian bank, the decline in economic activity has continued in recent years, mainly reflecting the weakness of domestic demand, both consumption and investment. Factors in this were a reduction in households’ disposable income, firms’ pessimism about the short-term prospects and a fall in consumer confidence. Foreign trade has continued to sustain the economy.
In the first quarter of 2012 Italy’s GDP diminished by 0.8 per cent on the previous period. As in previous quarters, the contraction in output mainly reflected the decline in household consumption and the fall in investment. The decline in value added was concentrated in industry excluding construction (-1.6 per cent) and construction (-3.2 per cent) while value added in services remained virtually unchanged.

Table 6.12 GDP and its main components in Italy

<table>
<thead>
<tr>
<th>GDP and its main components 232</th>
<th>2011</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Q2</td>
<td>Q3</td>
<td>Q4</td>
</tr>
<tr>
<td>GDP</td>
<td>0.3</td>
<td>-0.2</td>
<td>-0.7</td>
</tr>
<tr>
<td>Gross fixed investment</td>
<td>-0.4</td>
<td>-1.2</td>
<td>-2.6</td>
</tr>
<tr>
<td>-construction</td>
<td>-1.2</td>
<td>-1.2</td>
<td>-0.8</td>
</tr>
<tr>
<td>-other investment goods</td>
<td>0.4</td>
<td>-1.1</td>
<td>-4.3</td>
</tr>
</tbody>
</table>

Table 6.13 Macroeconomic scenario in Italy

<table>
<thead>
<tr>
<th>Macroeconomic scenario in Italy 231</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>0.5</td>
<td>-2.0</td>
<td>-0.2</td>
</tr>
<tr>
<td>-household consumption</td>
<td>0.2</td>
<td>-2.5</td>
<td>-0.9</td>
</tr>
<tr>
<td>-government consumption</td>
<td>-0.9</td>
<td>-0.9</td>
<td>-1.9</td>
</tr>
<tr>
<td>Gross fixed investment</td>
<td>-1.2</td>
<td>-8.2</td>
<td>0.0</td>
</tr>
</tbody>
</table>

230 OECD
231 Economic bulletin, Banca D’italia
232 Economic bulletin, Banca D’italia
233 Economic bulletin, Banca D’italia
<table>
<thead>
<tr>
<th></th>
<th>6.3</th>
<th>2.4</th>
<th>5.9</th>
</tr>
</thead>
<tbody>
<tr>
<td>exports</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>imports</td>
<td>1.0</td>
<td>-4.5</td>
<td>4.1</td>
</tr>
<tr>
<td>Change in stocks and valuables</td>
<td>-0.6</td>
<td>-0.7</td>
<td>0.1</td>
</tr>
</tbody>
</table>

Source: Based on Istat data.
(1) The formula for calculating the contributions to real GDP growth in accordance with the methodology for price deflation based on chain linking is available at: www.istat.it.

figure 6.17  GDP growth and contributions of its main determinants 1
While in China, in Shanghai, in these years, the GDP is growing year by year. Fixed investment is an important element to push the GDP to grow, so along with the GDP, the fixed investment also grows and also the new construction. Below is the GDP in Shanghai.

**2.4.1.1 Fixed investment**

![GDP in Shanghai](image)
In the first quarter of 2012 gross fixed investment fell by 3.6 per cent compared with the previous period due to the tight conditions in the credit market. In the first quarter of 2012 investment in construction fell by more than 3 per cent compared with the previous period, continuing the downward trend under way for a year. According to the Territory Agency, the number of sales of residential properties declined sharply, by 19.6 per cent compared with the first quarter of 2011. The short-term outlook for the sector appears poor. In the quarterly survey of estate agents conducted in April by the Bank of Italy, Tecnoborsa and the Territory Agency, about two thirds of the respondents expected prices to fall in the short term.  

Table 6.14 Sources and uses of income: Italy

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP</th>
<th>Gross fixed capital formation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>construction</td>
</tr>
<tr>
<td>2006</td>
<td>2.2</td>
<td>1.2</td>
</tr>
<tr>
<td>2007</td>
<td>1.7</td>
<td>0.5</td>
</tr>
<tr>
<td>2008</td>
<td>-1.2</td>
<td>-2.8</td>
</tr>
<tr>
<td>2009</td>
<td>-5.5</td>
<td>-8.8</td>
</tr>
<tr>
<td>2010</td>
<td>1.8</td>
<td>-4.8</td>
</tr>
<tr>
<td>2011</td>
<td>0.4</td>
<td>-2.8</td>
</tr>
<tr>
<td>2012-Q1</td>
<td>-0.8</td>
<td>-3.3</td>
</tr>
</tbody>
</table>

Another chart also shows the construction trends in these years.

---

235 Economic bulletin, Banca D’italia
236 Supplements to the Statistical Bulletin, Italian Housing Market Survey
While in Shanghai, the investment trend is generally goes up in recent years, and also is the completed residential areas. Below are the charts of the real estate investment in Shanghai and the complete residential areas in Shanghai.
2.4.2 Real estate market in recent years

In the financial crisis of 2008~2009, the Italian real estate market declined to the worst position. Actually, from 2003, the real estate price began to fell. However, after 2009, the market bounced back a little.

<table>
<thead>
<tr>
<th>By geographical area</th>
<th>worse</th>
<th>same</th>
<th>better</th>
</tr>
</thead>
<tbody>
<tr>
<td>North west</td>
<td>61.6</td>
<td>34.6</td>
<td>3.8</td>
</tr>
<tr>
<td>North east</td>
<td>62.0</td>
<td>35.3</td>
<td>2.7</td>
</tr>
<tr>
<td>Centre</td>
<td>59.4</td>
<td>36.6</td>
<td>4.0</td>
</tr>
<tr>
<td>South &amp; islands</td>
<td>61.0</td>
<td>34.6</td>
<td>4.4</td>
</tr>
<tr>
<td>total</td>
<td>61.0</td>
<td>35.3</td>
<td>3.7</td>
</tr>
</tbody>
</table>

6.11.1.2 House price

The signs of weakness in the housing market became more pronounced in the fourth quarter of 2011. While the number of properties newly registered with estate agents for sale increased, selling times, according to the agents, and prices fell, with more substantial discounts from the sellers’ original asking prices. Agents’ short-term expectations for their local markets and for the national market worsened further, and pessimism also deepened concerning the medium-term outlook nationally.

With 0.5% annual house prices increases during the year of 2011 reported by the Bank of Italy, in real terms house prices fell 1.2%. There was also a 6.6% drop in housing sales (seasonally
adjusted) during the year of 2011.\textsuperscript{239}

While in Shanghai and almost all the cities in China, in recent 15 years, the price trend is going up, although in some years, it fluctuates a little. And in 2010 to 2011, the price reached the peak in the 15 years.

In the last quarter of 2011, the trend of the house price is decreasing, more than half of the price decreased compared to the previous period, the deterioration was sharpest in the South.

\textsuperscript{239} “Bye bye bunga bunga”, Global property guide
\textsuperscript{240} European Centre Bank
table 6.16  Property selling price in Italy

<table>
<thead>
<tr>
<th>Property selling price</th>
<th>Comparison with previous period</th>
</tr>
</thead>
<tbody>
<tr>
<td>By geographical area</td>
<td>decreasing</td>
</tr>
<tr>
<td>North west</td>
<td>62.9</td>
</tr>
<tr>
<td>North east</td>
<td>70.0</td>
</tr>
<tr>
<td>Centre</td>
<td>63.8</td>
</tr>
<tr>
<td>South &amp; islands</td>
<td>74.7</td>
</tr>
<tr>
<td>Total</td>
<td>66.5</td>
</tr>
</tbody>
</table>

In China, the area of highest housing price is the east coast, and big city like Beijing. In the cities in centre or the west, the housing prices are not that scaring.

table 6.17  Top 10 Chinese cities with highest housing price-to-income ratio in 2011

<table>
<thead>
<tr>
<th>Top 10 cities with highest housing price-to-income ratio in 2011</th>
<th>housing price-to-income ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beijing</td>
<td>14.1</td>
</tr>
<tr>
<td>Shanghai</td>
<td>12.4</td>
</tr>
<tr>
<td>Hainan</td>
<td>11.7</td>
</tr>
<tr>
<td>Fujian</td>
<td>11.3</td>
</tr>
<tr>
<td>Tianjin</td>
<td>10.4</td>
</tr>
<tr>
<td>Zhejiang</td>
<td>9.8</td>
</tr>
<tr>
<td>Guangdong</td>
<td>9.6</td>
</tr>
<tr>
<td>Jiangxi</td>
<td>8.1</td>
</tr>
<tr>
<td>Sichuan</td>
<td>8.0</td>
</tr>
<tr>
<td>Hubei</td>
<td>8.0</td>
</tr>
</tbody>
</table>

And among the many reasons for cancelling contract with agent, “offers received too low for seller” and “no offers owing to high price” are two of the main reasons. We can see from the chart. It shows that now in Italy, demand is less than supply, it is a buyer’s market. The other main reason is “difficulty obtaining mortgage”.

table 6.18  Main reasons for cancelling contract with agent in Italy

<table>
<thead>
<tr>
<th>Main reasons for cancelling contract with agent</th>
<th>Offer received too low for seller</th>
<th>Expecting prices to rise</th>
<th>No offers owing to high price</th>
<th>Property on market for too long</th>
<th>Difficulty obtaining mortgage</th>
<th>Unexpected problems for sellers</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>By geographical area</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>North west</td>
<td>49.8</td>
<td>19.2</td>
<td>65.7</td>
<td>23.5</td>
<td>59.9</td>
<td>2.4</td>
<td>7.7</td>
</tr>
</tbody>
</table>

---

241  Supplements to the Statistical Bulletin, Italian Housing Market Survey
242  Municipal Statistics Bureau of related province and city
243  Supplements to the Statistical Bulletin, Italian Housing Market Survey
In the difference of the price offered by the seller’s first ask and final price, the general differences are from 5% to 20%. And the average reduction is about 15%.

<table>
<thead>
<tr>
<th>By geographical area</th>
<th>Same or higher</th>
<th>Less than 5% lower</th>
<th>5%-10% lower</th>
<th>10%-20% lower</th>
<th>20%-30% lower</th>
<th>More than 30% lower</th>
<th>Average reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>North west</td>
<td>2.2</td>
<td>11.7</td>
<td>52.9</td>
<td>23.6</td>
<td>8.8</td>
<td>0.8</td>
<td>13.6</td>
</tr>
<tr>
<td>North east</td>
<td>0.8</td>
<td>9.1</td>
<td>49.7</td>
<td>31.3</td>
<td>7.9</td>
<td>1.3</td>
<td>12.5</td>
</tr>
<tr>
<td>Centre</td>
<td>1.1</td>
<td>12.6</td>
<td>47.4</td>
<td>29.5</td>
<td>8.5</td>
<td>0.9</td>
<td>13.1</td>
</tr>
<tr>
<td>South &amp; Islands</td>
<td>5.1</td>
<td>23.5</td>
<td>52.0</td>
<td>13.6</td>
<td>3.8</td>
<td>2.1</td>
<td>16.6</td>
</tr>
<tr>
<td>Total</td>
<td>2.0</td>
<td>13.0</td>
<td>50.7</td>
<td>25.3</td>
<td>7.8</td>
<td>1.1</td>
<td>13.7</td>
</tr>
</tbody>
</table>

6.11.1.3 Rent

Renting is unattractive for Italian landlords, because of rent controls and other restrictions. Rental properties have long yielded poor returns. Properties generally have low yields of 3% to 5%, according to Global Property Guide.245

![House Prices, Rent, Consumer Prices 1996-190](image)

Source: Bank of Italy, ISTAT

In June 2010:

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244 Supplements to the Statistical Bulletin, Italian Housing Market Survey
245 “Bye bye bunga bunga”, Global property guide
246 Bank of Italy, ISTAT
Apartments in the historical centre of Rome had rental yields of 3.45% - 4.40%. Apartments in Rome’s suburbs had yields ranging from 3% to 4.5%. Apartments in Milan had yields ranging from 3.39% to 3.76%.

Table 6.20 Rental yields of real estate in Italy

<table>
<thead>
<tr>
<th></th>
<th>Cost ($)</th>
<th>Yield (p.a.)</th>
<th>Price/sq.m ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ROME-historical centre Apartment</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>50 Sq.m.</td>
<td>363,950</td>
<td>1,203</td>
<td>3.96%</td>
</tr>
<tr>
<td>85 Sq.m.</td>
<td>613,785</td>
<td>1,827</td>
<td>3.57%</td>
</tr>
<tr>
<td>120 Sq.m.</td>
<td>865,560</td>
<td>2,932</td>
<td>4.06%</td>
</tr>
<tr>
<td>200 Sq.m.</td>
<td>1,545,600</td>
<td>4,448</td>
<td>3.45%</td>
</tr>
<tr>
<td><strong>ROME-suburbs apartments</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>65 sq.m.</td>
<td>316,290</td>
<td>1,110</td>
<td>4.21%</td>
</tr>
<tr>
<td>120 sq.m.</td>
<td>560,640</td>
<td>1,816</td>
<td>3.89%</td>
</tr>
<tr>
<td>225 sq.m.</td>
<td>1,350,225</td>
<td>3,395</td>
<td>3.02%</td>
</tr>
<tr>
<td><strong>MILAN-apartments</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>50 Sq.m.</td>
<td>285,450</td>
<td>988</td>
<td>4.15%</td>
</tr>
<tr>
<td>85 Sq.m.</td>
<td>465,205</td>
<td>1,483</td>
<td>3.83%</td>
</tr>
<tr>
<td>120 Sq.m.</td>
<td>738,600</td>
<td>2,141</td>
<td>3.48%</td>
</tr>
<tr>
<td>200 Sq.m.</td>
<td>1,844,700</td>
<td>4,340</td>
<td>2.82%</td>
</tr>
</tbody>
</table>

Rents can only be increased annually by 75% of the cost of living index; i.e. if inflation is 2%, then you can only increase your rent by 1.5%. While house prices rose by an average of 6.3% from 2000 to 2008, rents rose by an average of only 2.5% over the same period. In 2009 and 2010, rents rose by only 2.36%, while residential property prices dropped by an average of 0.2%.248

6.11.1.4 Loans

The average interest rate for new housing loans was 2.92% from May 2009 to March 2011, but then rose to 3.42% in September 2011.249

247 Global property guide
248 "Bye bye bunga bunga", Global property guide
249 Bank of Italy
Italy's interest rates reflect European Central Bank rates. Rising inflation pushed the ECB's key rate to 1.25% in April, and 1.50% in July 2011. In November 2011, ECB's base rate eased back to 1.25%.

250 Bank of Italy, ECB
251 EURISC-il sistema CRIF di informazioni creditizie
252 Bank of Italy
Italy’s mortgage markets are smaller than those in other European countries. Outstanding mortgages were 22% of GDP in 2010, up from 7% in 1997, significantly lower than the EU’s average of 50% of GDP.  

In China, in the period of 2011 and 2012, the loan of real estate in China kept in a high level and in the middle of 2012, because of the macro control of government, the loan decreased. But there are news shows that in the late of 2012, the loan rises again. While before that, because the high level of the loan and mortgage, many projects can be build up without many capital.

6.11.1.5 Homeownership

Italy is a nation of home-owners. 80% of all homes are owner-occupied, especially in the south and small towns, up from 59% in 1980.

6.11.1.6 Type of house sold

There are not many new constructions in Italy in recent years. In the transaction market, almost half of the houses are pre-owned old house.

<table>
<thead>
<tr>
<th>Types of houses sold in the reference quarter</th>
</tr>
</thead>
<tbody>
<tr>
<td>By geographical area</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>North west</td>
</tr>
<tr>
<td>North east</td>
</tr>
<tr>
<td>Centre</td>
</tr>
</tbody>
</table>

253 “Bye bye bunga bunga”, Global property guide
254 European Mortgage Federation, Bank of Italy
255 Bank of Italy
256 Supplements to the Statistical Bulletin, Italian Housing Market Survey
While in China, the transactions of new builds are far more than that of pre-owned ones.

As to the function of the buildings, from the chart we can see that during the 2007 to 2008 year, the resident building was affected less than office, was more stable than offices.

6.11.2 The regular discipline of Italian real estate development

Although from about 2007, the Italian real estate market went not well and was also the GDP, but the development of Italian real estate has some trend to follow. It is a map of investment of construction in Italy.
From here we can see that a similar period repeated in about every 10 to 15 years. In the period, the real estate construction rises to a peak and then falls down to a valley.

figure 6.31 investment of construction in Italy 1

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Figures 6.31 and 6.32 show the investment of construction in Italy over a period of time. The graph indicates that there is a repeating cycle of about 10 to 15 years, where the real estate construction experiences peaks and valleys. The data is sourced from various reports and publications, including Bank of Italy and G.D’Anna, which provide insights into the trends and patterns in the construction sector in Italy.

---

258 Bank of Italy, ISTAT
259 G.D’Anna, L’industria italiana dei laterizi nel 2006: arrivano i primi segnali di recesione, 2007

---

Fonte: L’industria italiana dei laterizi nel 2006: arrivano i primi segnali di recesione... di G. D’Anna. ANDIL, Asolaterizi, Roma. L’industriadelaterizi.it • luglio agosto 2007 • 106
http://www.laterizio.it/files/PRODUZIONE.pdf

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Tab. 1 - Investimenti nelle costruzioni (prezzi costanti 1995, valori percentuali).

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Nuova costruzioni</td>
<td>5,6</td>
<td>8,4</td>
<td>7,9</td>
<td>1,4</td>
<td>3,6</td>
<td>1,4</td>
<td>0,5</td>
<td>-0,6</td>
<td>-0,3</td>
<td>-3,8</td>
<td>-2,6</td>
<td>-0,1</td>
</tr>
<tr>
<td>- residenziali</td>
<td>6,2</td>
<td>8,5</td>
<td>6,3</td>
<td>5,2</td>
<td>7,1</td>
<td>7,8</td>
<td>4,6</td>
<td>-1,0</td>
<td>-5,0</td>
<td>-7,0</td>
<td>-8,0</td>
<td>-2,9</td>
</tr>
<tr>
<td>- non residenziali private</td>
<td>7,6</td>
<td>8,0</td>
<td>13,8</td>
<td>-8,5</td>
<td>5,0</td>
<td>-1,9</td>
<td>-3,9</td>
<td>0,7</td>
<td>2,0</td>
<td>2,3</td>
<td>2,4</td>
<td>2,9</td>
</tr>
<tr>
<td>- non residenziali pubbliche</td>
<td>2,5</td>
<td>8,5</td>
<td>-4,2</td>
<td>4,4</td>
<td>5,4</td>
<td>-3,5</td>
<td>-5,5</td>
<td>-1,0</td>
<td>-3,0</td>
<td>-2,0</td>
<td>0,7</td>
<td>1,0</td>
</tr>
<tr>
<td>- giro civile</td>
<td>2,8</td>
<td>8,6</td>
<td>-4,0</td>
<td>7,5</td>
<td>7,2</td>
<td>-5,2</td>
<td>-1,0</td>
<td>-1,2</td>
<td>-4,0</td>
<td>-4,5</td>
<td>1,5</td>
<td>1,2</td>
</tr>
<tr>
<td>Rinnovo</td>
<td>5,8</td>
<td>2,1</td>
<td>-1,7</td>
<td>-0,6</td>
<td>1,0</td>
<td>-2,0</td>
<td>0,1</td>
<td>0,7</td>
<td>0,4</td>
<td>0,8</td>
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<td>- giro civile</td>
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<td>0,9</td>
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<td>0,9</td>
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<td>-1,2</td>
<td>-0,1</td>
<td>0,6</td>
</tr>
</tbody>
</table>

Fonte: Crescita/It - Coigunturale Crescita/Ita.
We can find many similar charts to support this point of view.

Italy

Index 1985 Q1=100, ratio scale

And the period appears like a circle if we put Y-axis as housing price, X-axis as the number of the sold house.

Andamento valori immobiliari

figure 6.33 investment of construction in Italy 3

figure 6.34 investment of construction in Italy 4
It is the chart made by different research organizations, they all show the same pattern in the chart. While from the year of 2007 to the year 2011 or even later, the price of the real estate fell and the sold number fell too. Still we cannot know when this period will finish.

While in China, we could not see this kind of trend yet, also because the development of Chinese
real estate market is only with history of 30 years, and in the 30 years, the laws, the policies and the market has to complete and improve. So the line of real estate market is not a mature line and also cannot be regard as a trend to follow.

6.11.3 Italian real estate agent

Under Italian law, the agent could be either a “mediatore” or a “mandatario”.

The “mediatore”

If he agent is a mediatore, its commission is usually paid by both the buyer and the seller, the mediatore has a duty to facilitate the transaction, put the seller and the buyer in touch with each other, and inform each of them of anything known to its which may be material or relevant to its clients.

The “mandatario”

If the agent is a mandatario, only the buyer pays the commission, and the agent acts in the interest of its client only.

All real estate agents must be registered with the local chamber of commerce, if the agent is not registered, he will be liable to fines and other penalties and more importantly, will not be entitled to the agreed upon commission. The buyer will generally be required to sign a standard contract to retain the services of the real estate agent, such contract should always be carefully analyzed before its execution, and special attention should be paid particularly to the terms relating to the amount of the agent’s commission, the time when it will become payable, and the available mechanism for controversy resolution in case of fee dispute.

In china, we also have the real estate agent like Italy, but more companies that deal with the real estate transaction are the real estate developers. That kind of company takes the fund from the bank and builds the real estate themselves. After finished or when constructing, they began to make them for sale in advance. And also the management after, is usually responsible by the real estate company. And the trend of China nowadays is the large company becomes larger and larger, while the small companies suffered by the macro control of the government and is struggling to survive.
7 Project analysis

figure 7. 1 site of 3 examples with red

7.1 Background of transformation of old city in the process of Shanghai’s urbanization

Shanghai’s urban transformation began from 80s of the last century, the urban development strategy changed from the country's industrial basement to a comprehensive national economic center, and recovery the most commendable before financial and trade domestic and international central position. However there’s no clear space production concept in 80s, there are many reasons. From the macroeconomic situation, the national reform strategic focus is not in Shanghai, Shanghai urban transformation did not become a national strategy, the transformation of the forces and resources are still limited to the local level and within the framework of the system, urban transformation can not be in a formation of scale although much efforts were down. More importantly, land resources, by virtue of which to product space, still has not been given the properties of the commodity, which not only limits the large-scale transformation of the space, but also difficult to form a conscious space production concept.

Urban renewal got into the breakthrough stage in 1990s, from the general trend, to build Shanghai a top and three centers become the national strategy, Development of Shanghai got into linkage situation of the Pudong construction and Puxi district’s transformation, landscape hasn’t been change for 40 years, growingold town and dilapidated infrastructure in any case cannot play the role of global city, space and infrastructure reconstruction is strongly needed. Shanghai, on the other hand, housing dilemma has improved after the efforts in 80s, the per
capita living space rise from 4.5 square meters in 1980 to 6.6 square meters in 1990. But still subject to the institution and financial, improving of the situation is very limited, the overall situation is still urgent. Fundamentally change of the Shanghai housing shortage must find a real breakthrough, a breakthrough occurred in 1992, this year is the the Shanghai urban renewal's "1978". The scale and intensity of renewal and development of Shanghai in the 1990s was startling compare to the past hundred and fifty years after the opening of Shanghai. Area of demolished house was thirty million square meters, which torn up mostly the whole city in the 1949, while new building residential area reaches 100 million square meters, which is 2.5 times the 1980 total residential area in Shanghai.

It is much more important to understand the social geography behind datas above. Urban transformation in the 1990s took place mainly in a demolition and construction mode, pursuing of the market value of the land and space, in which period relocation and resettlement mode rarely in a move-back way, large tracts of old neighborhoods disappear, million residents relocated, majority of relocated residents moved to the suburbs or the edge of city, which migration route was inevitably lead to by differential rent of land transactions, so that it can achieve multiple objectives of commercial development, municipal construction and residential housing improvement, which can balance funds of development and resettlement. Central area residents can not afford to continue living in the central areas, which were occupied by brand commercial, high-level buildings, attracting affordable residents, so relocation is not only a change of residence place, but also change of population in space, production of new social space.

Social differentiation and hierarchical of spatial quality is going along with this production of space. Change of living social geography actually reflects the space routes of the cities social mobility: the poor give out the core area to the rich. The core area is valuable, but this value does not belong to the residents, the lots right or the concept of the right to a specific space do not have or cannot be raised by the ordinary people or in legal language. Shanghai people have been long trapped in the small housing area, so they exchange the location for the size of housing. Space in government is the concept of value, but not for relocated residents. Because of the reality of improvement of the state of residence, residents do not resist the compensation physical placement. Meanwhile, memories of old neighbors, community traditions and history look were all been ignored when people are in the excitemen of new housing housewarming.

Urban renewal, to usher in the 21st century with its new round of urban transformation, with it’s target of 20 million square meters of central urban area which even with stronger momentum, model of demolition and construction model changes from largely demolishing and replacing in 90s into transforming, leaving. The biggest (if not the most widely) change is urban conservation and protecting development concept has been practiced, achieved success and has become one of the new transforming mode. If we say in nineties space become concepts and resources in the urban renewal, but mostly it is a community class capital structure concept with no history and collective memory. Protective transformation project as Xintiandi and Tian Zi Fang, contribute of the missing ingredients of the production of space on the above, provides a new possible ways

Datas from" Shanghai Statistical Yearbook 2000 " ," History " , Volume 12, p 491
for renovation of old district.

### 7.2 Example of XIANTIANDI project

![Figure 7.2: The site of XINTIANDI in Shanghai city](image)

![Figure 7.3: Logo of XINTIANDI](image)

#### 7.2.1 Background of the project XINTIANDI

In 1996, the Shanghai Luwan District Government decided to transform the 52 hectares of the old city Taipingqiao, invited a Hongkong real estate company- Shui On Group to participate in the reconstruction project, and Shui On Group's urban planning got recognition. While during the process of land planning, different from a usual way that developing residential first and then
develop of commercial facilities, they decided to do first Xintiandi Plaza commercial project. Under various restrictions, Xintiandi Plaza design set to keep the old Shanghai Shikumen house looks, while internal fully renovated. This process need to pay twice as high as the cost than building a new one, cost of 20,000 yuan per square meter. At that time, the Shui On Group, has just been impacted by the Asian financial turmoil, many banks have taken a conservative policy, loans is limited, even in such adverse conditions, Shui On Group insisted the development of a new concept of the "XINTIANDI". Twice of unexpectedly bold decisions caused peer disputes, negative opinion about the "XINTIANDI". In fact, Shui On Group have two important origins for this decision: Shanghai has two very important activities in 2001, one is the annual meeting of APEC in Shanghai in October, another is Chinese communists celebrate the 80th Anniversary Party. Therefore, the first phase of the development of Taipingqiao should first do with space around the "Congress of the CCP", so that President Jiang Zemin and other state leaders attending celebrations can see Shanghai's development achievements.

7.2.2 Stories of Shikumen

"Shikumen", meaning "stone gate", is a special old form of residence in Shanghai. In many ways, it is indeed a gateway to the fascinating history of this largest coastal city of China. In the middle of the 19th century, the uprising of the "Taiping Heavenly Kingdom" forced a large number of residents from Shanghai and its neighbouring Jiangsu and Zhejiang provinces to take refuge in the city's foreign concessions. To meet the needs of the rapidly increasing population, "Shikumen" houses were built in the foreign concessions on an unprecedented scale. A typical "Shikumen" house is built along narrow alleys (or "long-tangs") and features a stone gate framing a black wooden front door that leads into a small enclosed courtyard. This unique architectural setting provided residents with a feeling of security in a turbulent era, and as most of them were developed by foreign companies, "Shikumen" houses had gradually become a symbol of East meeting West in Shanghai.

Life in the Lanes
Shikumen-style houses formed the basis of the "Li Long" (lane) community where private spheres and public spaces overlapped. In this community, everyone knew everyone else's business. As the density of the community rose, some family activities were often moved to public spaces.

A valuable Architectural Legacy
At their peak, the Shikumen-style neighborhoods numbered more than 9000 in Shanghai and took
up 60 per cent of the total housing space of the city. The Shikumen style, which has survived for more than a century, is however no longer suitable for modern urban living. Since the 1990s, Shanghai began a new wave of renovation and development, demolishing many Shikumen-style buildings. It was only when more and more of these houses were replaced by skyscrapers that people began to realize such monuments of Shanghai's past deserve to be preserved.

### 7.2.3 Development objectives

As a re-creation born out of the sprawls of Shikumen housing, which is the architectural symbol of Shanghai in the 20th century, Shanghai Xintiandi, “The City’s Living-Room” is a place to unwind and relax after a long day.

A window to the past and the future, to China and the world. Shanghai Xintiandi’s Shikumen attraction was created by converting residential blocks into a multifunctional dining, retail and entertainment center flowing with restaurants, boutiques, cafes and bars of an international standard.

The Shikumen buildings within Shanghai Xintiandi retain the antique walls, tiles and exterior of

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261 Datas from web: http://www.xintiandi.com/xintiandi/cn/
the Shikumen housing of old Shanghai, while the internal spaces have been designed and decorated to suit the up tempo lifestyle of the 21st century urbanites, with infinite details that exude the casual elegance of modern city living.

Shanghai Xintiandi is where “yesterday meets tomorrow in Shanghai today.”

Before the development of Shanghai Xintiandi, the area it encompasses had been a spread of aged lanes crowded with mid-19th century Shikumen buildings which had witnessed the vicissitudes of time. The Shikumen style was a combination of influences from home and abroad, showcasing Shanghai's culture of that era.

With the city's drive toward progress and modernity, Shikumen, as a form of residential design, began to fall out of favor, prompting some experts to predict that by the 21st century Shikumen style housing would altogether disappear.

### 7.2.4 The site of XINTIANDI

Shanghai XINTIANDI is located in the commercial and shopping center of Shanghai, is belonged to the center of the center, and also is a scenic spots of Shanghai culture. The project is invested about 150,000,000 US dollars, began in the 1999, PLAZA XINTIANDI, which is the first stage project, is completed in June of 2000, open to the public in September of 2001.

The site of Shanghai XINTIANDI is about 30,000 square meters, building area is about 60,000 square meters, in the south of HUAIHAI ZHONG road, between HUANGPI NAN road and MADANG road, near the HUANGPI NAN road metro station.

#### table 7.1 data of XINTIANDI project

<table>
<thead>
<tr>
<th>XINTIANDI PROJECT</th>
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<td>developer</td>
<td>Shui On Group</td>
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<tr>
<td>site</td>
<td>TAICANG road 181</td>
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<tr>
<td>Land area</td>
<td>30,000 m²</td>
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<tr>
<td>Building area</td>
<td>60,000 m²</td>
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<td>invest</td>
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<td>Cost of transform</td>
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<td>Cost of arrange for relocation household</td>
<td>670,000,000 yuan</td>
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<td>Distance to the Bund</td>
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</table>

### 7.2.4.1 South part and North part of XINTIANDI

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262 Shanghai Statistical Yearbook
figure 7. 7 site of XINTIANDI

XINTIANDI project has several phases, the first phase is the XINTIANDI commercial area, which is within the bold red line, other phases are the SHANGHAI XINTIANDI, QIYE TIANDI, TAIPINGQIAO LAKE GREEN AREA, CUIHU TIANDI top grade residence area, which is within the fine red line.

The project we talk about mainly in the thesis is the commercial part of XINTIANDI.

XINTIANDI commercial part is composed of South part and North part.
South part is character by modern architectures, with the Shanghai Gate as a supplement. While North part is character by old Shanghai Gate, in a dialogue of new and old.

In South part, there is a shopping center of 25,000 m² which has shopping, entertainment and relaxation activity in it, is opened to the public in 2002. In the modern building with glass curtain wall, there entered all kinds of commercial tenants, such as characteristic restaurants, Fashion store, food plaza, cinema and fitness center... this provides the consumers and tourists a place with all kinds of activity.
North part is composed of many Shanghai Gates, but combined with modern decoration and equipment, and serve as the place of senior consumer place and restaurant of all over the world. This shows the international character of XINTIANDI.
figure 7. 10 night scene of north part of XINTIANDI

The road between North part and South part is XINGYE road, which is the site of the First National Congress of the CPC, and the Shanghai Gates along the road is also a kind of cultural landscape of Shanghai.
### Table 7.2: Type of business in South part of XINTIANDI

<table>
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<td>Catering</td>
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<tr>
<td>Southeast Asia restaurant</td>
<td>LUOJIAODIAN, JINXIANGYUAN THAILAND RESTAURANT...</td>
</tr>
<tr>
<td>European restaurant</td>
<td>CJW...</td>
</tr>
<tr>
<td>Café and tea</td>
<td>MC café, CHAYUXUAN...</td>
</tr>
<tr>
<td>Desert and ice cream</td>
<td>Haagen-Dazs, Paulaner Brauhaus...</td>
</tr>
<tr>
<td>Bar and entertainment</td>
<td>K2 JASS BAR, PARADISE, HAODIFANG, UME XINTIANDI CINEMA, CAIDIE BAR...</td>
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<tr>
<td>Shopping</td>
<td>CHAOANDONGNI, SIMPLY LIFE...</td>
</tr>
<tr>
<td>Dress</td>
<td>Arnold palmer, baby jane, camper, french connection, I.T, just gold juse diamond, NINE WEST, CAOMEIDI, the gioss, VIVIENNE TAM...</td>
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<tr>
<td>Others</td>
<td>FULINTANG...</td>
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<tr>
<td>Art and history</td>
<td>Gallery of CAFA...</td>
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<tr>
<td>Gym</td>
<td>Alexander club...</td>
</tr>
<tr>
<td>Hotel</td>
<td>88 XINTIANDI serviced apartment...</td>
</tr>
<tr>
<td>Service</td>
<td>Post office of XINTIANDI...</td>
</tr>
</tbody>
</table>
7.2.5 Commercial orientation of XINTIANDI

The commercial orientation of XINTIANDI mainly has three parts:

1. The first phase emphasizes on the comprehensiveness. In 2000, at that time, in Shanghai there is not a place which can integrate catering, entertainment, shopping, tourist and culture all together. So the developer thinks it might be a huge market space for the commercial comprehensiveness.

2. The second phase is which the developer hopes to transform XINTIANDI an urban scenic spots in Shanghai, and makes it a necessary place for the tourists. The Shanghai Gate with its unique characters, naturally become the theme of the project.

3. The third phase of orientation is to make XINTIANDI a place of international communication and gathering. For that the Shui On Land Limited proposes to change the residential function...
of this site to a commercial function, and transform the old Shanghai Gates to a new world full of vitality.

7.2.6 Orientation of consumer group

1. Based on a matured commercial circle, having a high beginning

The site of XINTIANDI is in the LUWAN district in Shanghai, near HUAIHAI road which is a busy commercial street. HUAIHAI road is a street also with the high-grade consumption place, fashion stores and attracted many people to have a strong consuming power. Near a place like this, XINTIANDI which is an international, with fashion cultural, and like a village shopping center, definitely success and famous around the consumer group.

2. Supporting by constructing top grade residence buildings

The consumption of XINTIANDI can be supported not only by the huge visitors flow rate, but will be supported by many top grade residence buildings around. XINTIANDI project is a part of renovation project of TAIPINGQIAO area which is 52 hectares. So at the other side of the lake, there will be a CUIHU TIANDI which is a top grade residence building, the residents who live there will definitely be with high level. This residence makes it supportive to the consumption of the XINTIANDI project.

7.2.7 Success factors

figure 7. 11 XINTIANDI
3. The sustainable growth of the Shanghai economy. Report of Hong Kong Trade Development Council in March, 2003 shows that the GDP of Shanghai will exceed that of Hong Kong in 2015, and the Per Capita GDP of Shanghai will exceed that of Hong Kong in 2020.

4. A good site. The site where there are high level commercial streets and top grade residence building support the consumption of XINTIANDI.

5. The site is based on an area which has very beautiful and traditional Shanghai Gates, with a high cultural value.

6. The modern internal equipment and decoration.

7. Importing many well-known brands, excellent theme shop. Making local people acquaint with the western brands.

8. Integration all kinds of concept together, like popular, fashion, art, culture, and relaxation in one place.

9. Persistently sales promotion, public relations, establishing a image of enthusiasm, healthy, fashion, and viable.

10. Closely linked to the consumption habit of local people or tourists.

11. Making the selling point of integration of eastern and western, to open up the tourist market. XINTIANDI has become the necessary place in Shanghai, after the management of these years, together with the Bunds, town god’s temple, Yu Garden, The Oriental Pearl TV Tower, people square, JinMao building and Shanghai museum.

12. The manage mode of separating the management and operator. The developer does not sell the building after developed, but in its hand to centralized control it. The proprietor is at the same time the manager, he can control the develop direction in the future himself. In this way, it can avoid the confusion of the style of XINTIANDI because of too many type of business, and maintain the loyalty of the customer group.

7.2.8 Development mode

1. Only rent unsold

XINTIANDI does not sell the property right to the business owner, but leaves to its own hand to operate it integrally. In this way it can show the character, the style of the project in a maximum way. For the commercial tenant, beside they pay amount of rent every year, at the same time, they can also have the right to have profit-sharing, some can be even very high the income of the profit.
2. It is the best but the most expensive it wants

There is a strict criterion when it comes to how to select the tenement. It asks the tenements to have similar concept with XINTIANDI, having creative and characteristic service. Many tenements in the beginning does not understand the design concept of XINTIANDI, for that, Shui On Land Limited constructed a model house to let the commercial tenement to visit, understanding the design concept, developing the relationship with the tenement until they get similar thinking. This period is thought as one very important phase of the promotion in XINTIANDI project.

The investment principle of XINTIANDI is: the best but the most expensive it wants. From the composition of the tenement in XINTIANDI, it is the old and famous shop or enterprise, or the shops with distinct personality, or the shop with star effect that can enter XINTIANDI. But for these good commercial tenements, usually it is the XINTIANDI who invites them to come to rent, so in these cases, the rent is generally low to gathering the visitors flow rate. In this way, from a short term, it cannot get many profits. But from a long term to see, while the commercial is matured, there would be lots of tenements enter with very high rent.

7.2.9 Profit

In the beginning, the investment rent of XINTIANDI is 0.5-1 US dollars/m² per day. But in 2010, the highest rent in XINTIANDI has over 100 yuan/m² per day.

In 2010, the general income of rent of Shui On Land Limited has over 600,000,000 yuan, occupied less than 20% of the total income of this company. While in the long term plan of Shui On Land Limited, the general income of rent will occupy about 40% to 50% of the total income.

According to the future plan of XINTIANDI, it will also introduce a theater like Broadway, and will further expand its richness of the commerce.

7.2.10 XINTIANDI's impact to the city

Tourism real estate as a combination of “tourism + real estate” reflects both the pursuit of high quality of life after people's income reaches a certain level, but also the advanced form of real estate development, which has a wide range of application in China. The true intent of the development of Xintiandi is also driven by the appreciation of the surrounding real estate for high returns.

It seems that the Shanghai Xintiandi investment has been up to more than 10 billion yuan, but we should see what this brings. Because of the "Xintiandi" brand, it led to the enhancement of the surrounding real estate price. The price rose from the beginning of 8000 to 10,000 yuan per square meter, to 5-8 million per square meter. Project”Lakeville” sales begins since June and July in 2002 of the selling price of to 17,000 to 25,000 yuan per square meter which with the highest
close to 100,000 yuan per square meter.

Already, it’s set a new benchmark for style that is fast being replicated around China. As a result, Shui On has been besieged by offers to replicate Xin Tian Di around China. Already, work has started on a similar project in Cites as Hangzhou, Chongqing. And the success of the project could have even greater impact as a role model for historical redevelopment not just in China, but across Asia.

However, if we should consider the Xintiandi project as a benchmark of transformation of old city in the urbanization process? Professor Ruan Yishan from Tongji University said: “I agree the success of Xintiandi, but resolutely oppose copy Xintiandi mode, the protection of the old building should be people-oriented, the Champs Elysees, in Paris, the house has been through two or three centuries, there are people still live there, Marx’s house still lived by descendants of Marx.”

7.3 Example of M50 project

![figure 7.12 The site of M50 in Shanghai city](image)

7.3.1 Introduction of M50
M50 creative industry center was Shanghai Chunming textile mill, located in 50, Moganshan Road, a peninsula shape site in south Suzhou River. It occupied about 24,101 m$^2$, there are about 40,598 m$^2$ of industry buildings of last century. Because of the problem of planning system, the site faced the crisis of remove. At last, the management department made it successfully transforming from a traditional industry area to a culture creative industry area, thanks to the artist who entered the area for working and living.
In the 40,598 m² of industry buildings, the clients which in the culture catalog are 105, occupied 24370 m², the clients which in the design catalog are 21, occupied 7159 m², other clients are 4, occupied 753 m².²⁶⁴

Now in the M50 area, there are more than 130 laboratories involved gallery, graphic design studio, architecture studio, video studio, art design studio… until November, 2011, the total clients are 133, in which 60 are studio, occupied 46% of the total, gallery are 48, occupied 36% of the total, design are 21, occupied 16% of the total, others are 4, occupied 3% of the total.²⁶⁵
7.3.2 Background of M50

The site of Moganshan Road 50 is located in the middle of the Suzhou River basin, is the gathering place of Shanghai national capital enterprise. The building of Shanghai Chunming textile mill is the building that is in best conservation conditions of the textile industry building. The factory is the industry of a Zhou family, started the factory from 1937. After 1994, because of the economy decline and the profit decrease, the factory was renamed of Shanghai Chunming textile mill.

In 1999, because of the economy, the Shanghai Chunming textile mill were closed, facing the problem of site leaving unused and the workers out of work.

To change the negative situation, first of all, the government rent the site to Tian An China Investments Company Limited. After getting the site, the Tian An China Investments Company Limited made the project of development and transform of the whole site. And the Shanghai Chunming textile mill, as the management part of the site, solved the problem of unemployment by the rent of the factory.
table 7.4 data of M50 project

<table>
<thead>
<tr>
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<th>Tian An China Investments Company Limited</th>
<th>FAR</th>
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</tr>
</thead>
<tbody>
<tr>
<td>site</td>
<td>MOGANSHAN Road 50</td>
<td>Current rent</td>
<td>3-4 yuan per square meter per day</td>
<td></td>
</tr>
<tr>
<td>Land area</td>
<td>24,101 m²</td>
<td>Distance to the Bund</td>
<td>5500 meters</td>
<td></td>
</tr>
<tr>
<td>Building area</td>
<td>40,598 m²</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

In the period of development and transform of the M50, some artists saw in the traditional beautiful industry buildings of the site, started to rent the industry space for working as a studio or gallery. The first famous artist to find here was Deng Kunyan, a Taiwan designer, in 1998. After him, several famous Shanghai artists also rent the site for gallery, and called it “the bastion of art without the wall”. From that on, the factory site became the largest art warehouse, full of artists inside, and the rent also increased rapidly.

Meanwhile, Shanghai government began to pay attention to the conservation of the culture heritage, and the Shanghai Chunming textile mill is protected because of his history of textile industry. In the working conference of 2004, the site of Shanghai Chunming textile mill is named visual art characteristic blocks. In 2005, it is authorized as the first culture creative industry areas by the economic committee of Shanghai.

![figure 7.17 the name authorized by the economic committee of Shanghai](image)

Also because of the occupying of the artists, the site attracted more and more artists, and the Shanghai Chunming textile mill become the known M50, and after the authorization by the economic committee of Shanghai, the M50 with its site is more and more famous.

7.3.3 Orientation of M50
From 2000, the government of Shanghai began to support the culture heritage and the M50 began to change to a culture creative industry area of Shanghai. After the development about 10 years, the site became more attractive than the beginning, and also the operations, the service in the M50 is more abundant than the beginning. The mature brand of M50 generally formed.

From 2008, the management department of M50 proposed the new concept of the brand M50, which is from subject to object, from substance to carrier. It will focus on the site, take advantage of the resource and the gathering power of the site, to put M50 to a higher level, make the brand with its core value of “art, creativity and life”.

7.3.4 The management mechanism and the operating model of M50

To maintain the original environment of M50, the management focuses on some points. The first point is not changing the original looking of the building. The maintaining and repairing of the building can be on the hardware, the equipment of the building, but it must not destroy the original look of the building, the repair project also must be checked by the management part. The second point is for the management of the art society and artist. By controlling the quality of the client and the quality of the activity held in the M50, the quality of the area is improved. The third point is helping some artists. By subsidizing some potential artists who has not much money to rent the workshop, it changes the simply relationship of landlord and tenant, and it is also good for the brand of M50.

The management part supports artists here to live and develop, and on the other hand, doing so as the rent rises, the artist could still afford to live and work here. The data shows that in the beginning, the rent is less than 2 yuan per meter per day. In 2009, the rent here is 3 yuan per meter per day, and in 2012, the rent is still 3-4 yuan per meter per day. Comparing with the other art park, the price here is relatively low.267

Besides, the attraction of M50 is in the management of the area. The business here in M50 is controlled very strictly. The entering of each kind of business and clients must be evaluated by the management part to see if it is appropriate to be here.

7.3.5 The success of the M50

At first, it is the artists who is spontaneous to choose the site of M50 and work here, and is spontaneous to transform the place to be an art park. The transform is very success, so that the Shanghai government changed the original plan of site. In the beginning, the government would like to demolish the ex industry area and make other plans on it. It is the artists in M50 who made the government approved the conservation plan of M50. So in the success of M50, there are 3 kinds of power to support it.

The first power is the artist. From the perspective of society, the client of art usually has a strong

purchasing power comparing to the others, and this kind of client usually has high social status. So when the site once faced the destiny to demolishing, the appeal of artist and his client made the attraction of public, and made them pay attention to.

The second power is the government. The site was not for the art part in the first place. That is because the government realized the value of the cultural and creative industry. And in the background of urbanization transform, the development of M50 can be a leader to guide other project.

The third power is the enterprise of Shanghai Chunming textile mill. At first, the enterprise rent out the factory space and made unified management of the factory, to conserve the building and also to make profit. at that time, there is not many creative industry center in Shanghai, so the Shanghai Chunming textile mill does have a foresight to do so.

7.4 Example of TIANZIFANG project

![Figure 7.18: The site of TIANZIFANG in Shanghai city](image)

figure 7.18 The site of TIANZIFANG in Shanghai city
<table>
<thead>
<tr>
<th>TIANZIFANG PROJECT</th>
<th>Government</th>
<th>FAR</th>
<th>1.5</th>
</tr>
</thead>
<tbody>
<tr>
<td>site</td>
<td>TAIKANG road, 210</td>
<td>Function orientation</td>
<td>Creative industry parks, Commercial Street, style tourist area</td>
</tr>
<tr>
<td>Land area</td>
<td>20,000 m²</td>
<td>Cost of transform</td>
<td>About 2000 yuan/m²</td>
</tr>
<tr>
<td>Building area</td>
<td>30,000 m²</td>
<td>Current rent</td>
<td>5-8 yuan per square meter per day</td>
</tr>
<tr>
<td>Distance to the Bund</td>
<td>4500 meters</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

7.4.1 Background

TIANZIFANG is located at Lane 210, Taikang Road, it was in the 1950s a typical alley factory, composed by Hayward Factory (1935), Comfort Knitting Factory (1935), Sun Life cap factory (1936), Kam Hong powder material Company (1936), Shanghai food Industry factory (1958). In 1990s due to adjustment of industrial structure, these factories benefits has been declining, some plant idle and abandoned gradually, becoming the burden of the local government. In 1998, a Cultural Development Corporation fancy architectural value here, got into in the area. Soon, the famous painter Chen Yifei, artists as Erh, Wang Jieyin, Jia-Jun and craft shops have settled in Taikang Road, make the original obscure street gradually blowing art wind, Tianzifang gradually attracted more and more attention. In May 2000, Dapuqiao neighborhood offices set the goal to make an inventory of resources, increase employment opportunities, and develop of creative industries, use the old Tianzifang resources to attract investment, now there are more than 70 units, with participation of artists and designers from 18 countries and regions, formed industry characteristics based with interior design, visual arts, arts and crafts.

7.4.2 Site

TIANZIFANG is located at Lane 210 Taikang Road, Shanghai, Taikang Road block is located in the intersection of three districts of Shanghai, with good reachability of 600 meters west to Hengshan Road Xuhui District casual fashion district and the Shanghai Library, the north is the famous Huaihai Road Commercial Belt, East with less than 1000m to the old city. This location has both positive and impositive side for economic development Taikang Road area. From the perspective of leisure consumption, Taikang Road block is close to the Hengshan fashion leisure street, Xintiandi, Yandang Road Leisure Street and the Temple traditional business districts, in the central location of flow of people gather together, conducive to the development of a new type of leisure shopping consumer sites and business district. But at the same time due to the after-onset, Taikang Road is difficult to stand out from conventional development of leisure shopping. From the perspective of cultural history, the west part of Taikang road of Shanghai cultural heritage is one of the richest historical value, occupies an important position in Shanghai, one of the cultural centre of Shanghai Business. From the standpoint of the future development of the regional site, because of 2010 Shanghai World Expo is located near the Huangpu River at
the north part of Taikang road. And the World Expo is often a catalyst for urban construction, which can mobilize all aspects of resources and initiation, spatial pattern of Taikang Road area is bound by the World Expo will be an opportunity to form a spatial development south axis. Geography, history and humanities of Taikang Road determines the development of creative industries and neighborhood protection, making Tianzifang able to be preserved.

![figure 7. 19 Original condition of the site](image)

---

7.4.3 Project position

The density of building and population in TIANZIFANG is high, which make it difficult to transformate. Being confined to attract high value-added and knowledge-type, low consumption resource-based enterprises in the investment decision-making, no obvious location advantage. Near Huaihai Road, Xintiandi, Dapuqiao, Commerce City, which means competitive business environment, making it a must to implement a differentiated development strategy. From the perspective of resource elements, TIANZIFANG is in a disadvantaged area, but fostering complementary industries, implementation of dislocation development make out Tianzifang. In ‘Tianzifang creative industries concept planning’ the project is proposed in the following four positions:

- Internationally recognized creative form
- High-end chain of cultural industries,
- Ecological communities of the artist’s work
- The art consumer District of Shanghai quality

7.4.4 Project planning

---

Plans of One block, Four streets, Ten districts, Twenty alleys

**One block:** as a complete urban living block includes three aspects of function: 1 a historical and cultural block feature. 2 creative industry park function. 3 residential function.

**Four streets:** different character of north, south, east and west streets

**Ten districts:** keep the residential function, leading in new concept of creative living, build a lively museum of SHIKUMEN architecture and life.

**Twenty alleys:** keep the characteristic of small alleys inside, rebuild the environment to be more attractive

---

figure 7. 23 Street façade remediation effect of Lane 248, Taikang Road buildings 272

Plans of three lines, six point, nine gates, twelve buildings

figure 7. 24 Plans of three lines, six point, nine gates, twelve buildings 273

---

Phased construction planning: unified planning, distributed implementation

First of all to have overall planning of Tianzifang extension, renovating the historical and cultural style, restoration of historical buildings. then import creative industries into neighborhood blocks phase by phase. Third, make it an organic unified system of TIANZIFANG community that contains creative ideas, life, vitality, characteristics and digital, creat creative industry space for the target of expansion of function, Unified planning, implemented in three phases.

7.4.5 Development mode and profit

In the development of Tianzifang creative industries, through direct management, leasing, commissioned management operations by property ownership. Tianzifang investment advisory firm, as lease operators play a role similar to the "head lessee" in the relationship in the confined condition that same building structure, the nature of the land the same restrictions as a professional operating. Shanghai Tianzifang investment consulting firm has two kinds of lease ways of 10 and 20 years, as a principal to participate in the transformation of the old plant operators under “three-unchanged” restrictions. After the end of the lease term of 10 years of

Lane 210, 5 and 7, replaced by Luwan Jingwei Group as a property owner who run direct investment business, the rest were still ran by Tianzifang investment consulting firm.

Professional operating company quickly increased awareness through the introduction of well-known artists and studios, lay the foundation for Tianzifang getting pre-emptive effect. Professional operating company got rental revenue after dismantling the renovation of old factory, lease is 1 to 3 year, the annual rent increase by 5 to 10% a year, now rental yields are maintained at 30 to 40%, which is much higher than the pure office occupancy rate of return on investment of 10%. TIANZIFANG, compared with the traditional office, the payment method is more flexible, the cost of renovation is 1000 to 2000 yuan / square meters, meanwhile with lower maintenance costs and marketing expenses, so there is a comparatively advantage of cost.

In the development of area of culture and leisure in Tianzifang, the government owns the property rights of the old neighborhood, which is the property right of residential. Old neighborhood residents only pay several hundred yuan a month to the Government through the low rent of the Shikumen residential use rights, by way of lease, transfer, residents get income from renting the house. Industries of food and retail get into Tianzifang residential, commercial activities carried out in the space of the residential nature of property rights, and gain incomes from the difference of shop rentals and residential rentals.

Government each year acquire a stable tax income of 300 to 400 million yuan, from 2008 to the present, 18 million yuan of the first cost of the transformation has been recovered. In peak seasons, the average trips a day is around 5,000 people, enhance the Dapuqiao overall regional commercial consumption.

7.5 Real estate of creative industries take place in the process of urbanization

276 Datos from Shanghai Statistical Yearbook 2010
277 Datos from Shanghai Statistical Yearbook 2010
Although models of XINTIANDI and TIANZIFANG and M50 are different, there is a point in common, they have all led to the surrounding commercial and become a famous tourist destination, which prominent more characteristics of their culture, prompting to enter a virtuous circle, form the "Business-tourist "mode. This model has four factors: First, is to have a cultural landmark that cannot be copied, unforgettable. Second, different kinds of commercial space can provide different customer to get what they want. Third is the selling point, complete brand of form layout to meet the different levels, different structures of consumption needs. Fourth is transportation, there should have a convenient and radiation travel lines, certain flows and fast channels.

We can also see although these projects are all same transformation project, there are big difference shown in the rent price. Especially XINTIANDI, the rent has been up to 100 yuan per square meter per day, the main reasons are as follows:

Location
From the relationship of distance of three projects to the the Shanghai’s center location with rental prices, we can evidently see rent price are significant affected by the location: Project farther away from the center are of lower rent.

Transform model

TIANZIFANG and M50 mainly are mainly being protected by "leave" mode, while XINTIANDI choose “transform” as the main protect mode. Which means emptying some Shikumen visceral, that is, to change living functions, but keep the shell of the house. The investment costs are significantly higher, the transformation is more thorough, overall planning are more strong.

<table>
<thead>
<tr>
<th></th>
<th>XINTIANDI</th>
<th>M50</th>
<th>TIANZIFANG</th>
</tr>
</thead>
<tbody>
<tr>
<td>developer</td>
<td>Shui On Group</td>
<td>Tian An China Investments Company Limited</td>
<td>Government</td>
</tr>
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<td>site</td>
<td>TAICANG road 181</td>
<td>MOGANSHAN Road 50</td>
<td>TAIKANG road, 210</td>
</tr>
<tr>
<td>Distance to the center</td>
<td>3500m</td>
<td>5500m</td>
<td>4500m</td>
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<tr>
<td>Land area</td>
<td>30,000 m²</td>
<td>24,101 m²</td>
<td>20,000 m²</td>
</tr>
<tr>
<td>Building area</td>
<td>60,000 m²</td>
<td>40,598 m²</td>
<td>30,000 m²</td>
</tr>
<tr>
<td>FAR</td>
<td>1.8</td>
<td>1.8</td>
<td>1.5</td>
</tr>
<tr>
<td>Function orientation</td>
<td>Comprehensive fashion place City tourist attractions International space</td>
<td>Industrial attraction, modern art and cultural district, city park</td>
<td>Creative industry parks, Commercial Street, style tourist area</td>
</tr>
<tr>
<td>Cost of transform</td>
<td>20,000 yuan/m²</td>
<td>2000 yuan/m²</td>
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</tr>
<tr>
<td>Current rent</td>
<td>100 yuan per square meter per day</td>
<td>3-4 yuan per square meter per day</td>
<td>5-8 yuan per square meter per day</td>
</tr>
</tbody>
</table>
Property of sites

Xintiandi commercial project is approved by the Government, with property right of 50 years. At least in these 50 years, the developer can adjust a variety of formats structure through commercial means because the initiative property is in their own hands. TIANZIFANG and M50 are not complete commercial project, they are always in an indeterminate state, there is uncertainty existing of industrial buildings lease, residential lease. At the same time, like house in TIANZIFANG are transformed from resident to commercial, some Shikumen is in an indeterminate state of security. It is these uncertainties restricting TIANZIFANG and M50’s long-term development strategy.

China's urbanization process is still getting accelerating, meanwhile criticism brought by urbanization also exists, especially the city's homogenization phenomenon is particularly prominent. There should be a new round of reform and innovation to solve the problems of rapid urbanization to city, from the theme of industrialization, urbanization mode to mode of comprehensive development of urbanization, cultural and creative industries is right the inevitably needed boost in this transformation process.

Shanghai’s creative industries have gone through a way from spontaneous gathering to the government guiding. From the 1990s, some artists and designers have started to spontaneously gathered to Moganshan Road, Taikang Road, Changping Road, began their cultural and creative activities.

At the same time, some sites have initially formed a relatively complete industrial formats, influencing and lead the development of the surrounding area. Such as Taikang Road Art Street, gathered more than 160 Chinese and foreign enterprise related to audio-visual arts, including painter studios, design studios, art galleries, cultural center, exhibition centers, these enterprises take creative design as the core, involving various fields of visual creative design, forming a complete industrial chain.

In addition to these art institutions, other commercial industries as restaurants, services and the cultural and entertainment industries followed, as well as led to the joint development of tourism, leasing, real estate and other industries. Shanghai’s industrialization and urbanization has not yet fully completed, so the development of creative industries in Shanghai is more important to serve the secondary and tertiary industries, closely around the industrial upgrading and structural adjustment, the creative industries should be integrated into urban culture and urban construction.
8. Conclusion

The development of urbanization will inevitably lead a larger amount of the population from the countryside into the cities (more than what has already moved to the metropolitan areas in China), and expand the scale of the urbanism, increasing also the number of urban systems. In the past, the urbanization trend in China has not only conducted to the large-scale construction of urban infrastructures, but it has also brought the real estate industry to huge business opportunities. With the acceleration of urbanization (not only in the last years, but probably also in the next future), a large number of residential areas are built, commercial buildings rise up, urban cluster function facilities are constructed, which no doubt bring larger amount of opportunities to the real estate development.

The real estate is an industry that forms the urban systems, that is why the rise of the real estate sector and the urban development cannot be separated from the urban region trends, as it is a sort of self-determining industry in the crowd populated urban areas, that leads the development of industrialization and urbanization. Meanwhile, the change of the Chinese industrial structure brought about by the development of urbanization, the profound change in the population structure, the demand structure and the ecological structure will all have an important impact on the real estate development. The real estate important role in the socio-economic practice is mainly reflected in the urban form. With its inherent bearer role in the chain of urban economic activities connected to the production and life, it improves the city production and living environment, increasing employment and promoting the role of the urban development. On the other hand, in the dynamic social process, the change of the socio-economic factors caused by the urbanization trends would lead changes in the real estate industry through a series of transmission mechanism, in turn, the real estate industry will strengthen the urbanization changes. These two factors complement, coordinate and push forward the one each other, which forms a cumulative circulation trend.

Urbanization and real estate market in China

a. Rapid development of urbanization and real estate market

From the perspective of international law, when the urbanization rate is between 30-70%, urbanization will accelerate. From the current situation of China, the city has just reached the 50% of urbanization, even if the Chinese nation is a newcomer country of high density population, from a macro point of view we can say that both economic development and the process of urbanization will still grow fast.

In the meanwhile, residential market-oriented reforms have led to the expansion of the urban space, as well as a rise in the residential demand, which pushed prices further stimulate land development and behavior of local governments and developers, and strengthen the local government’s "land finance", thus speeding up the developed urbanization and suburbanization of some of the major cities.

Overall, the Chinese real estate industry is now in the high-speed development, but the
construction area is only about 300 million square meters, falls far short of the requirements. If urbanization speed sustains in this rapid way, according to foreign countries the corresponding level of production in China now, there will be a huge amount of demand for real estate in China.

b. **Huge regional differences**

Impacted by the rapid industrialization of the eastern part of China since the reform and opening up, China’s urbanization level has experienced a transform from "north to south" (high urbanization rate of the south while low urbanization rate of the north) to “east to the west" (low rate of urbanization of the west while high urbanization rate of the east). And now the level of urbanization in China appear as obviously "east high west low".

At the same time, the regional development of the real estate industry is also showing the imbalance, region segmentation is significant. China's real estate development is uneven, on the one hand, it is proved by the development of the eastern coastal areas much faster than the central and western regions, on the other hand, it is shown by the real estate investment in Guangdong, Shanghai, Beijing, Jiangsu, Zhejiang, which five cities have taken trading accounted for more than half of the country. From the spatial distribution point of view, China's real estate industry growth will be mainly in eastern China, the future of real estate investment center will also be concentrated in five provinces and cities in the eastern part of the above. While urbanization in some areas also need to be vigorously developed, where rigid demand in the real estate market is the main one, cities like Beijing, Shanghai have already been very mature, even showing unhealthy speculative demand in real estate market. Overall, there is a great gap between eastern and western China. This is adapt to the level of regional economic development, as well as to the extent of economic reform in the area.

Furthermore, imbalance in the development of urbanization and the area of the real estate market also affect the development of the national real estate market, so that the development of the real estate market is at a lower level, or at a lower stage of development.

c. **Increasing problems**

There are many problems shown during China's rapid urbanization and real estate development, which are mainly the following aspects:

1. Regional differences of urbanization level
2. Heavy quantity rather than quality which lead to "inflated city"phenomenon
3. The urban-rural gap is too large, urban-rural dual contradiction is serious
4. A massive existences of quasi-urban population, inner society of the city highlights the dual structure
5. ecology and urban environmental problems is still grim
6. traffic congestion, soaring housing prices, "big city disease” have appeared
7. Mobile population, social order," Villages in cites "management problems
8. Planning system is imperfect, coordination between the relevant planning are lack of.
Therefore, to ensure a healthy urbanization process and real estate market in China, from the perspective of economic, population and space, several main issues need to be concerned about:

1. **Land policy of government**
   After implementing the system of tax distribution, in order to increase the financial revenue, the local government transfers the land to get paid, it is like the rent. Also there are different kinds of land fees. If the policy not being change, and local revenues can not find pther sources instead of the real estate industry, local government is impossible to support the policy of lower prices.

2. **Private and banking capital gathering in the real estate market**
   Because the stock market goes not well in recent years, real estate market almost became the only channel for the private capital. The high rate of return makes the gathering of the capital. The aim of these capitals is only making profit. Such a real estate market that is propped up by investment needs cannot be healthy.

3. **Imbalance of supply and demand in different social group**
   Although from the view of China’s total population movements, the real estate market is in a shortage of supply situation. when we analyze the supply and demand, we should separate the vulnerable groups with others, to see if the demand and supply of these groups is balance. From the supply of the high income group, it is enough or even more than enough. So this let the rich people invest or speculate in the real estate market to make profit. However, to the vulnerable groups, although there is social security housing policy, but the implementing of the policy is always not going well and could not satisfied the demand of the household without a house. It leads to a situation that in one hand there are lot of vacant houses, but on the other hand, many people could not afford it.

4. **The over high price of some area**
   From the data of housing price-to-income ratio, we can see that the average ratio of China is actually within a safe and reasonable limit. It shows that in most of the cities, the development of real estate is healthy. It is just in some first and second-tier cities, especially some eastern coastal cities, the housing price-to-income ratio are far higher than the other cities, and far more than the difference of the income. The hardness of living makes the competitiveness of the city and the attraction of talents decreases, gap between the rich and the poor becomes larger, not good for the development of the city.

However, we maintain an optimistic attitude of the overall real estate market in China. With reasonable urbanization policy, the real estate industry is entirely possible to maintain high growth for a long period of time. In the next 20 years, the urban area and urban population should be doubled, and the huge demand for housing makes generally continued sharp rise in housing prices in major cities nationwide. Although the past two years due to the stringent control of the policy, the real estate market seems not in a good situation, with the development of urbanization, China’s real estate industry will still has a large development opportunity, bounding to comply with the law of development of urbanization in the next 20 years.
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